INVESTMENT RISK MANAGEMENT FRAMEWORK

SHEPLEY CAPITAL

Investment Risk Management Framework

A structured approach to protecting and growing your crypto portfolio

Risk management is the foundation of every successful crypto investment strategy. Without it, even the best market insight is rendered worthless by a single event that wipes out capital. This framework provides Australian crypto investors with concrete, quantitative tools for managing position size, portfolio allocation, drawdown limits, leverage, and capital protection - all grounded in Shepley Capital's Cryptopedia education library.

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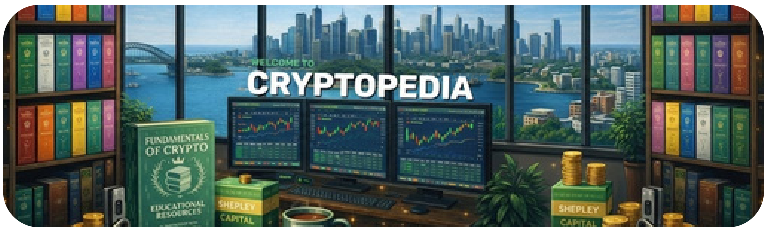

1. Position Sizing

Position sizing determines how much of your total capital is allocated to any single trade or investment. It is the single most important variable in long-term performance. Getting direction right but position size wrong is the fastest route to a destroyed account.

◆ The Percentage Risk Model

The percentage risk model limits the maximum loss on any single position to a fixed percentage of total account equity. Professional investors typically operate within a range of 1% to 5% of total capital per position, depending on risk tolerance and portfolio size.

> **CORE FORMULA**
>
> Position Size = (Account Equity × Risk %) ÷ (Entry Price − Stop Loss Price) Example: $50,000 portfolio, 2% risk = $1,000 max loss.
> In a real world scenareo: If your total portfolio is $80,000 before you decide to enter a new position, you would determine your stop-loss based on percentage distance from that equity position. In this case, you would set your stop-loss at $77,000 (distance = $3,000). Position Size = $1,000 ÷ $3,000 = 0.333 BTC ($26,640 position value).

◆ Position Sizing by Portfolio Tier

Portfolio Size (AUD)	Recommended Risk % Per Trade	Max $ Risk Per Trade	Rationale
Under $10,000	1–2%	$100–$200	Capital preservation is paramount at this stage
$10,000–$50,000	1–3%	$100–$1,500	Balanced growth with controlled drawdown exposure
$50,000–$200,000	1–2%	$500–$4,000	Institutional-style discipline; compounding focus
$200,000+	0.5–1%	$1,000–$2,000	Preservation first; smaller % of larger base

Portfolio Allocation Calculator

Before entering any position, calculate the following three values. This takes 60 seconds and prevents the most common sizing errors.

Step	Calculation	Your Result
1. Define risk amount	Portfolio value × chosen risk %	$__________
2. Define stop distance	Entry price − stop loss price	$__________
3. Calculate position size	Risk amount ÷ stop distance	__________ units
4. Check position value	Position size × entry price	$__________
5. Check leverage	Position value ÷ portfolio value	__________×

2. Portfolio Allocation

Portfolio allocation governs how total capital is distributed across different assets, risk tiers, and liquidity positions. Even a collection of excellent individual positions can produce poor overall outcomes if allocation is poorly structured. This is particularly the case in crypto where assets are highly correlated during market-wide stress events.

The Three-Tier Allocation Model

Tier	Assets	Suggested Allocation	Risk Profile
Core (Tier 1)	Bitcoin (BTC)	50–70% of portfolio	Low-medium. Highest liquidity, most established market structure
Growth (Tier 2)	Large-cap altcoins (Top 20 by market cap)	20–35% of portfolio	Medium. Higher beta to BTC; greater upside and downside
Speculative (Tier 3)	Mid/small-cap, emerging projects	0–15% of portfolio	High. Only well-researched positions; accept potential total loss
Cash/Stablecoins	USDT, USDC, AUD cash	Minimum 10–20%	Zero. Dry powder for opportunities; psychological buffer in drawdowns

Allocation by Risk Tolerance Profile

Profile	Tier 1 (Core)	Tier 2 (Growth)	Tier 3 (Speculative)	Cash Reserve
Conservative	70%	15%	0–5%	15–20%
Moderate	55%	25%	5–10%	10–15%
Aggressive	40%	35%	10–15%	10%

> During Bitcoin sell-offs exceeding 20%, virtually all cryptocurrencies decline simultaneously, often amplified by mass exodus. A portfolio spread across ten different crypto assets residing within a similar sub-sector has far less diversification than it appears. Always stress-test your allocation assuming near-perfect correlation across all crypto holdings during a black swan event.

3. Drawdown Limits

A drawdown limit is a pre-defined loss threshold that triggers a mandatory change in trading behaviour. These rules exist because human psychology is at its worst during losing periods; with the impulse to "make it back" statistically leading to the most destructive trading decisions. Formalising these rules in advance removes emotion from the equation.

Drawdown Level	Recovery Required	Mandatory Action
5% from peak	5.3% to recover	Review last 5 decisions. Identify any process violations. No size change yet.
10% from peak	11.1% to recover	Reduce new position sizes to 75% of standard. Conduct full portfolio review.
15% from peak	17.6% to recover	Reduce position sizes to 50%. Cut trading frequency by half. Restrict to highest-conviction setups only.
20% from peak	25% to recover	Pause active trading. Paper trade for minimum one week. Complete written self-audit before resuming.
25%+ from peak	33%+ to recover	Full trading halt. Seek peer or mentor review. Rebuild from 25% of standard position sizes.

DAILY & WEEKLY HARD LIMITS

Consider these loss limits as personal trading restrictions to prevent major portfolio downfalls.

Maximum daily loss: 3% of account equity - Stop trading for the remainder of that day.
Maximum weekly loss: 6% of account equity - Reduce all new positions to 50% of standard size for the remainder of the week.
Maximum monthly loss: 10% of account equity - Pause for a minimum of 3 business days and complete a full month review.

4. Capital Protection Systems

Capital protection is the set of structural rules that prevent any single event; whether that's a bad trade, exchange failure, market crash, operational error, or simpy from causing permanent, unrecoverable damage to your portfolio.

Hard Stop-Loss Rules

Every position must have a hard stop-loss order placed in the market at the time of entry. Mental stops fail precisely when they are needed most, especially during adverse moves when emotional pressure is highest. A stop placed in advance removes the emotional aspect from the decision entirely.

Exchange Exposure Limits

No single centralised exchange should hold more than 30-40% of your total crypto portfolio. Exchange failures, freezes, and insolvencies; including events such as the FTX collapse, have resulted in permanent loss of customer funds. Hold only what is actively required for current trading on any exchange. The remainder belongs in self-custody storage.

- Black Swan Protocol

Pre-define a written response protocol for extreme market events. The protocol should include: immediate reduction of all open leveraged positions; assessment of exchange counterparty risk; movement of capital to self-custody if exchange stability is in question; and a mandatory 48-hour pause before resuming full trading activity. The protocol is only effective if written and committed to before the event occurs.

5. Leverage Rules

Leverage amplifies both gains and losses proportionally. In cryptocurrency perpetual futures markets, leverage of 100× or more is technically available. However, Bitcoin regularly moves 3–8% in a single session; meaning a 20× leveraged position can be liquidated by a routine volatility event. Risk percentage, not leverage ratio, should be the governing variable. As a strong rule of thumb: unless you are extremely confident in your ability to interpret short timeframe movement patterns, avoid leverage trading entirely from your investment strategy.

Leverage Level	Liquidation at Price Move of	$50,000 Portfolio — Max Loss	Appropriate For
2×	50%	$25,000	Swing and position trades with wide structural stops
5×	20%	$10,000	Day traders with defined stop levels; moderate experience
10×	10%	$5,000	Short-term trades with hard stops; experienced traders only
20×	5%	$2,500	Scalps only; expert risk management required
50×+	2%+	$1,000+	Not recommended under any standard framework

LEVERAGE GOLDEN RULE

The correct question is never "how much leverage can I use?". It;s "how much of my portfolio am I willing to lose on this trade?" Set the risk amount first (e.g., 1% of portfolio = $500), then calculate position size from entry and stop distance. Leverage is the output, not the input.

Further Reading — Cryptopedia

Topic	Cryptopedia Resource
Portfolio construction & allocation	Access Resource
Stop Loss Strategy Framework	Access Resource
Leverage trading mechanics & risks	Access Resource
Exchange safety & custody	Access Resource
Trading psychology & discipline	Access Resource

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