SCALING ACCURACY

Educational Piece

EMBASSY

COMPOUNDING EDGE: MONTHLY VS. WEEKLY TRADING STRATEGIES

The frequency of trades impacts the "win rate" needed for profitability. Let's explore this simply: If your strategy trades once a month with a certain accuracy (win rate), what weekly accuracy would deliver similar results if you switched to weekly?

WHY FREQUENCY MATTERS

Fewer trades mean higher stakes. With fewer opportunities per year, each monthly trade carries more weight, either through larger position sizes or higher expected profits to account for the longer time horizon. Monthly strategies need higher accuracy to compensate for fewer trades, while weekly ones can tolerate lower win rates due to having more opportunities to recover.

VOLATILITY SCALING

Volatility scales by the square root of time (e.g., a month is roughly 4 weeks, so $\sqrt{4} = 2$). This means a monthly trade's potential profit (or loss) could be about 2x that of a weekly trade, assuming consistent risk management.

ASSUMPTIONS FOR SIMPLICITY

Equal profit/loss size on wins and losses (symmetric outcomes).

Same overall annual exposure: 12 monthly trades vs. 52 weekly trades.

Goal: Equate total expected returns, so a monthly win rate of X% translates to a weekly win rate of Y%.

THE MATH BEHIND IT

We can model this with a straightforward equation. Let:

P = Profit (or loss) per weekly trade.

W = Weekly win rate (accuracy).

M = Monthly win rate (accuracy).

Expected annual return from weekly trading: $52 \times [(P \times W) - (P \times (1 - W))] = 52P (2W - 1)$

Expected annual return from monthly trading: $12 \times [(2P \times M) - (2P \times (1 - M))] = 24P (2M - 1)$

Set them equal for breakeven equivalence:

$52P (2W - 1) = 24P (2M - 1)$

Simplify: $2W - 1 = (24/52) (2M - 1) = (6/13) (2M - 1)$

$W = 0.5 + (3/13) (2M - 1)$

The formula above shows the weekly breakeven accuracy based on monthly accuracy. It's derived from balancing total returns, factoring in trade frequency and scaled profits.

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REAL-WORLD EXAMPLES

Here's how common monthly win rates translate to weekly equivalents:

Monthly Win Rate (M)	Equivalent Weekly Win Rate (W)	Insight
55.0%	52.3%	Even a modest monthly win rate can translate to a viable weekly strategy, leveraging the power of compounding through higher frequency.
60.0%	54.6%	Mid-range monthly accuracy supports weekly trading that's comfortably above breakeven, making it suitable for momentum-based or mean-reversion tactics where frequent adjustments can capitalize on short-term market inefficiencies.
65.0%	56.9%	A robust monthly success rate allows for weekly execution with room for error, as the increased trade count enhances statistical reliability and risk diversification.
70.0%	59.2%	High monthly precision equates to strong weekly performance potential, emphasizing the value of disciplined, high-conviction strategies.

KEY TAKEAWAY

Adapt Thoughtfully

If shifting from monthly to weekly trading, aim for the equivalent win rate to maintain performance. Weekly trading offers more data points for analysis but requires discipline to avoid over-trading. Be mindful that transaction costs don’t overwhelm the benefits of the approach.

IMPORTANT DISCLOSURES