

Independent Bets Worksheet

Signal Pilot Education — companion to Lesson 71: How Many Bets You Are Carrying.

Two rules on one instrument look like two positions. They are not two bets. This worksheet turns your own book into the number of independent bets it is actually carrying, which is the number every risk figure downstream depends on.

Educational only. Trading involves substantial risk of loss. Not financial advice. Past performance does not guarantee future results. Every number in this worksheet is one you measure on your own record; the figures in the right-hand column are what the lesson measured on its own bars, and they are there to be disagreed with rather than copied.

1. Line the rules up on the same bars

Pick **two rules you actually run** and step them over the same series, marking what each holds at the close of every bar: long, flat or short.

Bar	Rule A position	Rule B position	Agree?
1			
...			
n			

	Your number	Lesson 71's grid
Bars where both hold the same side		
Bars in the sample		
Agreement share		
Correlation of the two return streams		0.9472 median

Across all 31,878 pairs the lesson forms, the **median** correlation between two rules is **0.9472** and the least alike pair still reads 0.4845. Your own pair will land somewhere on that spread, and where it lands is what the rest of this sheet is for.

2. Turn the correlation into a count

For n rules at an average pairwise correlation p , the independent bets are $n \div (1 + (n - 1)p)$.

	Your number	Lesson 71's grid
Number of rules, n		2
Average pairwise correlation, p		0.9472 (median)
Independent bets		1.03

Now add rules on paper and recompute. The count does not keep rising.

Rules added	Independent bets
2	
4	
8	
All of them	

However many rules you add, the bets you carry top out at one divided by the correlation, which on the lesson's grid is **1.06**. Adding members does not move the ceiling; only a genuinely less correlated object does.

3. Price what you thought you had

	Your number
Rules you run	
Risk per rule, in R	
Total risk if the rules were independent	
Total risk at your measured correlation	
Ratio of the two	

The last row is the factor by which a book of correlated rules overstates its own diversification. Read it before you size the next one.

What you are holding when this is filled in

One correlation and one count. The correlation is measured rather than assumed; the count is how many bets your book carries no matter how many lines are in it; and the ratio is what your risk figure was wrong by.

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