

Understanding Your Span of Control

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The military uses the term “command and control” to describe the management of current operations. One of the most important concepts in command and control is the idea of span of control.

Span of control describes how many simultaneous, subordinate operations you can successfully manage at the appropriate level of detail given the current situation of uncertainty, stress and pressure.

When you are inside your effective span of control, it is easy for you to be aware of all the important events occurring in your environment and for you to make decisions in time to positively affect the outcome.

When you are at the limit of your span of control, there is a very real sense that you are fully engaged in the current operation. You can sense the boundary condition and may even feel a sense of being about to lose control.

Too Many Balls in the Air

Think of a juggler who can successfully juggle five balls at once. Managing between one and four balls represents little to no challenge beyond the normal attention to detail required for any juggling. At five, the juggler feels a sense of total immersion and full engagement. The juggler may have difficulty looking at events or objects outside of the current field of vision. The juggler must maintain total commitment and concentration in the moment.

To add one more object into the mix would be a violation of the juggler’s span of control. While he may be able to maintain the flow for a few moments, the very real sense of being overwhelmed and slowly drifting out of control happens until the six balls overcome his skill and they all crash to the ground.

Span of Control for a Trader

Span of control for a trader relates to how many open positions he or she can effectively manage at the peak of uncertainty and still maintain effective decision-making. When we exceed our span of control, we are no longer capable of identifying required information, processing it, and acting upon it in a timely manner for best effect. It becomes very important for a trader to understand and appreciate the effect of their span of control on trading performance.

In certain situations, simply managing some number of open positions limits a trader’s span of control. In other cases, trading capital may be the limiting factor. Sometimes your maximum allowable portfolio heat limits your span of control. (As a rule of thumb, a trader should have less than 20% portfolio heat at any given time.)

A trader may have no problem following their trading system’s rule set when considering any single trade independently. When you start adding multiple trades into the mix, however, a trader may experience a performance breakdown and attribute the breakdown mistakenly to a psychological problem. Rather, it could be simply a cognitive load issue associated with span of control. It’s not that your discipline is breaking down; it’s that you’re trying to do too much.

Focus on your known capabilities under realistic constraints and behave accordingly.

10 Ways to Improve Your Span of Control

You have to know where you are before you can consider how to improve with your active trade management processes.

Here are some things you can do to improve your span of control:

1. Simplify your rule sets.
2. Rehearse contingency situations.
3. Use automatic trailing stops to manage open positions.
4. Trade symbols you are familiar with.
5. Identify the main themes of the day, week or month and stay with them.
6. Improve speed of execution.
7. Automate information gathering.
8. Increase the speed of your decision-making.
9. Reduce the amount of information required to act.
10. Stop believing that you are right and truly look at what's happening now.

Improving your span of control can afford you more open positions with smaller relative risk per position. If you stay within your maximum portfolio heat, you will reduce the probability of ever experiencing maximum single moment drawdown.