Brainy's Articles on
# Technical Analysis
Stop loss position — basics

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## Introduction

When investing in the share market there are a number of dilemmas for both *share traders*, and for the *investors* who are investing for the not-so-long term.

One of these dilemmas is the question of how to determine where the *Initial Stop* should be placed when a new investment position is opened.  It is critically important to do this so that if the share position moves in an unfavourable direction, you can close the position and minimise any losses.  This is one of the golden rules for successful trading (refer to Brainy's *Traders Creed* mini-poster, available from the web site).

Another dilemma is how to place the *Trailing Stop* to protect profits as the trade moves favourably, and then how to keep moving the trailing stop up to keep protecting profits.  Of course, if you are short-selling, then the same applies by "upside down" — ie. you need to keep lowering the trailing stop to protect your profits.

And yet another dilemma is how to actually implement the stop — by placing a conditional sell order in the market for immediate execution when the stop level is reached, or by manually placing a sell order in the market on the following day.

One important thing for the new trader to understand is that there is not one single right answer to this dilemma.  There are a number of right answers, some of which could apply to one trader and not to another.  And they can depend on a whole lot of different things, such as the trader's risk tolerance, investment horizon, aggressiveness, and so on.  A lot of text books have been written exploring this topic.

The theory behind how to calculate a *stop loss* level is really a topic for a Share Trading article, and not in Brainy's series on Technical Analysis.  However, there are some ways to determine a stop level based on technical analysis which can be explored here.

This article in Brainy's series on Technical Analysis (number TA-5020) provides an introduction to the topic of Stop Loss.  Another article in Brainy's series on Technical Analysis (number TA-5100, "*Indicators and tools for stops*") provides an introduction to the topic of using *price chart indicators* or *price chart tools* to determine stop levels.

It should also be mentioned here that Brainy's charting software package of choice is the Australian BullCharts software, so there is some reference herein to relevant features in the BullCharts package.

## Stop loss possibilities

Here is a list of just some of the possible ways to determine where to place a stop loss position:

- At a support level.
- At past resistance which is now support.
- On a sloping support line (an uptrend line).
- On the 30 week SMA (Weinstein).
- Using the P-SAR indicator (see Brainy's article TA-4250).
- Using the Long CBL Stop (see Brainy's article TA-5100).
- At a multiple of the Average True Range (ATR) (see Brainy's article TA-5100).

Some of these are briefly described below, whereas some are already discussed in other articles as indicated in the list above.  And there are many more possibilities, some of which are implemented as indicators in the BullCharts charting software package.

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