

Exit Strategies - The ideal exit?

Exit strategies

Does the ideal exit strategy exist?

Robert Brain
July 2022
(updated from November 2015)



Price charts summarise the underlying opinions and emotions of the market participants. Every chart tells a story. It pays to understand the stories in the price charts.



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Introduction

Exit strategies?

Is this important:

- capture profits?
- protect capital?



Introduction

Why sell a stock?

BTW — Why would we consider selling our shares in a company?



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 Introduction

Why sell a stock?

1. For a new investment position, the share price has fallen (*Stop Loss*);
2. The money is needed elsewhere;
3. The investment value has risen significantly, so it's somewhat sensible to liquidate some or all of the position (eg. the *portfolio weighting risk*);
4. The investment has risen to a pre-determined *price target*, so we want to lock in the profits and exit the position;
5. The investment position is not going anywhere and our money is not working hard enough (*time stop*, or *opportunity cost*).

4

 Introduction

Exit strategies?

The long-term buy-and-hold investor rarely contemplates selling an investment position.

However, astute investors/traders want to **protect capital** and **capture profits** carefully consider the possibilities for **exit strategies**, and ruthlessly implement the chosen strategies.

4

 Introduction

Interactive...

- Please ask questions.
- Let's discuss details.
- Price charts prepared using BullCharts software.



www.bullcharts.com.au

Every chart tells a story.
Understand the story in the chart.

4

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 Introduction

Important Notice — No Advice!

- This presentation does not include any advice.
- For proper advice, your personal financial situation needs to be considered.
- This presentation is pure education, only for your general awareness. 
- There are no recommendations to take any action, or to invest any money in any way.
- Always consult a properly licensed advisor before making investment decisions.



 Introduction

Important Notice





 Introduction

BTW

- I send occasional email to U3A and others
- My **Share Market Toolbox** web site:
 - Toolbox Members receive weekly email with (charts) analysis of our market
 - And there's lots more (stop loss, trends, etc...)
- Register for free and not miss out.
- Visit: www.robertbrain.com



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How to “get it right”?

- How can we manage the risks to protect our capital?
- How can we maximise the profits with minimal risks?
- What tools can we use to help us?

Let's review several possibilities...

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The “percentage fall” approach

“When the stock falls by “x” percent, then I will sell it.” (What do you think about this method?) 

- Is very common among investors.
- IMHO, is totally flawed!! → Avoid it!
- Ignores the fact that the emotions, sentiments and opinions of market participants are summarised in the price chart – as shown with the support & resistance levels, chart patterns, etc., etc.

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Beware!

1. You CAN go broke taking profits!
2. We can't be right 100% of the time;
3. A win/loss ratio of 40% can be a winner if losses are small and profits are bigger;
4. Let the profits run;
5. Watch the risk and money management.

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Price weakness

Consider an exit on **price weakness**:

- Weakening trend
- Break of the trend line
- MACD, Momentum, MA of Momentum
- Bearish divergence (MACD, RSI, Momentum, Money Flow, etc.).

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What are the options?

Exit strategy options can be categorised:

1. Time, clock or calendar-based exits
2. Price target exits
3. Money-based exits (eg. Stop Loss) based on share price
4. Price chart features
5. Technical analysis indicator exits.

Let's look at each category...

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1. Time, clock, calendar exits

(a) Time exit — after days or weeks

(b) Clock exit — based on time of day

(c) Calendar exit — mostly based on anticipated cyclical patterns

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(a) Time exit

A new investment goes nowhere for days or weeks so close the position (avoiding the *opportunity cost*).

For example, some people use a time period of:

- 30 days, or
- 4 weeks
- etc. ...

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(b) Clock exit / entry

- Some people avoid the first hour of the trading day for entry
- Likewise, some people believe it best to exit a position within a particular time window
- For some days of the week, or of the month, some investors are extra cautious for entries or exits (eg. Monday morning, Friday); also in the lead up to a long weekend.

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(c) Calendar – cycles, seasons

- Many people follow various cyclical patterns in the markets – which may, or may not, recur as expected;
- Can apply to equity markets, or commodities;
- By following cyclical or seasonal patterns, the calendar (and time of the year) becomes very relevant.

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2. Price target exits

- (a) Overhead resistance (sample over);
- (b) The Measure Rule (samples over);
- (c) Round price value;
- (d) Elliott Wave or Gann principles (eg. Elliott wave count, or time and price balance, etc.).

(more over...)

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3. Money-based exits

(a) Trailing Stop Loss below recent support (sample over);
(b) Fibonacci extension (for price target).

(more over...)

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(a) Trailing Stop Loss

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(b) Fibonacci extension

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4. Price chart features

- (a) Weakness or failure of the trend
- (b) Break (or change) of trend
- (c) Lowest Low of last "n" bars
- (d) Count Back Line (CBL)
- (e) Candle reversal pattern
- (f) Pivot Point reversal pattern

(more over...)

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(a) Weakening trend and failure

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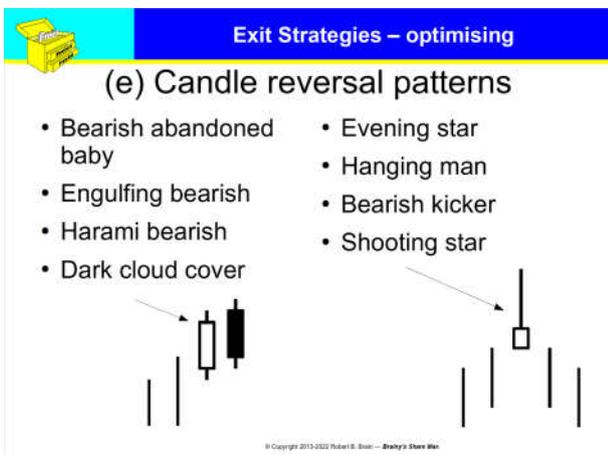
(a) Break of trend line

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(f) Pivot point reversal

The definitions vary. One popular one:
In an uptrend, the Pivot Point reversal has the following traits:

- A day (or period) that has a higher high than any of the bars next to it; and is:
- Followed by a day whose close is below the low of the day with the highest high.

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5. Technical analysis indicator exits

- (a) Moving Average (MA) – price above or below (eg. 50d, 200d, 30w)
- (b) Parabolic SAR
- (c) Moving Average cross-over
- (d) Bollinger Bands
- (e) ATR-based indicators
- (f) Hull Range indicator
- (g) Jim Berg Volatility Profit Taker or Trailing Stop indicator.

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(a) Moving Average

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(a) MA version 2

Alternate parameters can be used.
For example:-

- MA(12), MA(14), MA(9)
- Simple MA
- Weighted MA
- Exponential MA

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(b) Parabolic SAR

A P-SAR point says:
"this is the Stop-Loss price for the next candle".
E.G. for the week that commenced on 7 May on this weekly chart P-SAR = \$28.15, so in the next candle set a stop loss value for the week of \$28.15. If price falls to this, then sell.

A P-SAR point crossing to Above the share price is the exit signal.

The P-SAR points below the share price confirm a rising trend.

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(c) MA Cross-over

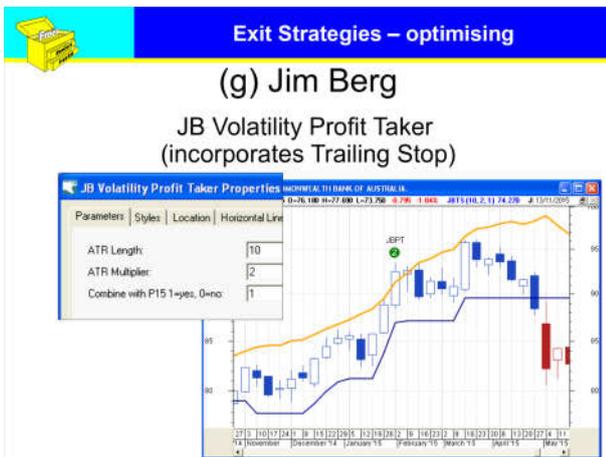
MOVING AVERAGE CROSS-OVERS
Daily chart of BHP.
MA Cross-Over on Closing price using 5 and 21 day Simple MA.

Golden Cross - Buy Signal
Faster MA crosses "Above" the slower MA.

Dead Cross - Sell signal (also Death Cross)
Faster MA crosses "Below" the slower MA.

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(g) Jim Berg (summary)

- Two indicators:
 - JB Trailing Stop
 - JB Volatility Profit Taker (incorporates Trailing Stop)
- Default (and alternate) parameters:
 - ATR over 10 (or 5) periods
 - ATR multiplier: 2 (or 1.1).

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Q & A ?

Any questions?

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Downloadable materials

ProTrader Workshop participants can download materials:

- Handouts for the five sets of presentation slides
- "ASX Index Compositions" pdf
- "Single Candlestick Shapes"... pdf
- "Uptrend Candle Patterns"... pdf
- "Downtrend Candle Patterns"... pdf

<https://www.robertbrain.com/files/KL/>

Username: **protrader** (not case sensitive)

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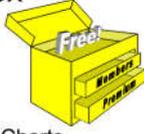
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Summary & Wrap up

Don't forget my Toolbox

- Brainy's **Share Market Toolbox**
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 - Loads of eBook (PDF) Articles
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 - Weekly Market Updates and Watch List
 - monthly e-Newsletters
- Good software – BullCharts
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- My contact details:
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THE END

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THANK YOU

(Backup slides follow)

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