Stop Loss

13 March 2007

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Discussion Guidelines

- One person to "lead" the discussion (as a facilitator).
- Everyone else is free to contribute to the discussion, including:
  - Their view / understanding of the topic;
  - Any good interpretations of how to use it, especially if they have resulted in a good trade.

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DISCLAIMER

Any information presented or discussed as a part of this presentation is only opinion, and is not advice, and should not be acted upon. The particular financial requirements of the viewer have not been taken into consideration. One should always seek professional advice before entering into financial or other arrangements.

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Stop Loss — Agenda

1. Introduction
2. Share purchase "triggers" - discussion
   (why do people buy/sell when they do?)
3. Stop Loss — details

Introduction

- The traders' / investors' objectives:
  - protect capital,
  - preserve profits.
- The "Stop Loss" can help do this.
- Depending on your trading horizon.

Share purchase "triggers" for buying

Why do people decide to BUY company XYZ at a particular point in time?
- Technical analysis
  - MA cross over
  - indicator rising (RSI, OBV)
  - chart pattern
  - price/volume breakout
- Fundamental analysis (eg. low PE)
- Company announcement
- Broker report / recommendation
- News
- Emotional attraction

Share purchase "triggers" for buying

Conclusion:

Whenever we see these conditions,
we know that some people
might be BUYing based on these
conditions.

Share purchase "triggers" for selling

Why do people decide to SELL company XYZ
at a particular point in time?

- Technical analysis
- They bought earlier and the price has since
  fallen, so they want to get out at their buy
  price (ie. overhead resistance).
- other?...

Share purchase "triggers" for selling

Conclusion:

Whenever we see these conditions,
we know that some people
might be SELLing based on these
conditions.

QUESTION

Can we use this knowledge
to our advantage
when setting
a Stop Loss?

"Stop Loss"

- What is it?
  - "A pre-determined monetary amount at which to sell the stock, that if put into effect will limit any loss."
- Conditional sell orders (and online brokers):
  - Do we use them?
  - Do they work?
- Set them "tight" or "loose"?
- Your trading horizon (long or short term; "but and hold"?)
- When to set / determine the Stop Loss value?
  - Before we buy?
  - At purchase time
  - Revise periodically

Stop Loss — CRITERIA

- There is no strict or rigid criteria for setting a Stop Loss value.
- It depends on several things:
  - Your trading horizon (short/long term)
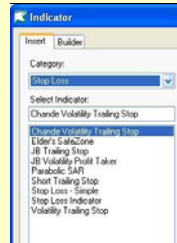 - Volatility level of stock
  - (other?)

Stop Loss — Techniques

- Initial stop
  could be arbitrary to limit loss in case of down turn
- Time stop
  could be set, say, 3 days after in case of a failure to succeed within an initial time period
- Money management stop (eg. 2%)
- Parabolic SAR
- Average True Range (ATR)
- Count Back Line (CBL)
- Volatility stop
- Moving Ave stop (eg. 30 week EMA, or cross-over)
- Minimum Rate of Return stop
- Technical stop (eg. support line)

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Stop Loss — Techniques
BullCharts indicators

BullCharts includes the Stop Loss "indicators" shown at right (with "Category" = "Stop Loss").

Also:

- ATR initial stop
- Bear Range initial stop
- Mean Close initial stop
- Relative % initial stop
- Wilson ATR trailing stop
- Wilson Relative % trailing stop
- others?

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Stop Loss — Techniques

Money management stop (eg. 2%)

- 2% of what?
  total trading capital?
  or of "this trade"?
  other?

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Stop Loss — Techniques

Parabolic SAR

- An indicator that sets trailing price stops for long or short positions.
- Also referred to as the "stop-and-reversal indicator".
- If the trend is up, buy when the indicator moves below the price.
- If the trend is down, sell when the indicator moves above the price.

source: www.stockcharts.com

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Stop Loss — Techniques

ATR (eg. Wilson ATR Trailing Stop)

in the sample:
starts at 3/10/2006;
ATR range x 2.6
(the BC default);
ATR periods = 21

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Stop Loss — Techniques

Count back line (CBL)
(includes parameters)

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Stop Loss — Techniques

Others to look at at tonight?

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Summary

- Stop Loss - can be useful to help preserve capital and profits.
- Variety of ways to determine.
- (other ?)

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Further comments
or
observations?

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Backup slides follow

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Acknowledgements

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