



Brainy's Articles on BullCharts

Wilson ATR Trailing Stop

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Introduction

The implementation of a *Stop Loss* approach is imperative to help maximise profits and to minimise investing and trading losses. Unfortunately there are many different Stop Loss methods to choose from. The easiest way to calculate a Stop Loss value for a stock is to apply a technical chart indicator to a chart, and read off the displayed value. There are many different indicators for this purpose.

The BullCharts software includes a number of such indicators and one of them, the *Wilson ATR Trailing Stop*, is described in this eBook Article (number BC-08-300). Readers should also refer to Leon Wilson's publications¹, as well as the following articles in Brainy's series of eBook Articles:

- Article TA-4320, "**Average True Range (ATR)**".
- Article ST-4500, "**Stop Loss**".
- Article TA-5020, "**Stop Loss Basics**".
- Article TA-5100, "**Indicators and Tools for Stops**".

Overview

The *Wilson ATR Trailing Stop* indicator is a technical analysis chart indicator that is included in some charting software packages to assist with the calculation of possible *stop loss* positions. It is based on volatility by way of the *Average True Range* (ATR) and is based on the writing's of Leon Wilson. For more information about ATR, readers should refer to the eBook Article TA-4320.

In Figure 1 below, this indicator is shown as dots on a daily chart of BHP. Each dot indicates the price point at which an exit should be made if the next candle falls to this level. This indicator will only rise across the chart — it will never fall — so identifying the start of a rising trend is important.



Figure 1: Wilson ATR Trailing Stop indicator.

The Stop Loss options that are left to each investor and trader include consideration of:

- Should we use a daily or weekly chart?
- Should we sell on a penetration of the indicated Stop Loss, or wait for a close price below it?
- The indicator can be fine-tuned by adjusting the number of ATR multiples, so which multiple should we use?

The indicator and various Issues like these are discussed on the following pages.

1 Wilson, Leon; "*The Business of Share Trading*"; Wrightbooks; 2006; p433.



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