



Brainy's Articles on Technical Analysis

Exit strategies — Part 3

Chart indicator exits

Article No:
TA-6033
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Jan 2014
Rev: Oct 2015
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Introduction

There are now several eBook Articles in Brainy's series on Technical Analysis which specifically cover the topic of *exit strategies*. Article TA-6030, "*Exit strategies — Introduction*", provides an introduction to the topic, and some initial detail regarding popular *exit strategy* options.

The Article TA-6031 "*Exit strategies part 1*", discusses the following aspects:

- (a) Time, clock or calendar-based exits;
- (b) Price target exits;
- (c) Money-based exits (based on the share price value).

The second Article TA-6032, "*Exit strategies part 2*", continues the discussion and covers some additional strategy options including *price chart feature* exits.

This third article (TA-6033) takes the subject even further and discusses *chart indicator exits* as listed in the Table of Contents above.

Chart indicator exits

It is useful to remember that the opinions of market participants about share prices are summarised in the price charts. Therefore, the price chart can be used to give us clues about the likely future movement of the share price (either up or down) and therefore a useful exit approach can be derived from the features of the price chart, including the use of technical analysis chart indicators.

Many people like to follow the action of a Moving Average (MA) on a price chart, and note whether the price is above or below the MA. And the observation of share price crossing above, or below, a moving average is used by some people to indicate possible entry or exit points. Even though this is an application of technical analysis, many people use it without even thinking that it is technical analysis.

Some of the range of possible technical analysis chart indicators that could be utilised to help identify a potential exit include the following:

1. **Moving Average (MA) (and Weinstein)** — Note whether the price is above or below a particular MA. The 50day and 200day Moving Averages are commonly used. Also notice whether the MA itself is rising, or falling. For example, with the Weinstein approach.
2. **MA Cross-over** — The point at which two Moving Averages cross is considered by some people as a possible entry and exit strategy (or a part of a strategy in conjunction with another signal). If using a 5day and a 10day MA, then when the slower 10day MA crosses up to above the faster 5day MA, then this is the possible buy trigger, while the converse is the possible sell signal.
3. **Parabolic Stop and Reverse (P-SAR)** — This is a simple but somewhat effective chart indicator for use with an exit strategy.
4. **Bollinger Bands** — The Bollinger Bands chart indicator can be used to assist with buy and sell trigger conditions.
5. **ATR-based indicators** — There are several chart indicators that are based on the Average True Range (ATR). For a discussion of these, refer to the relevant eBook Articles. Some sample indicators include: Chandelier Stop, and Wilson ATR Trailing Stop.
6. **Hull Range indicator** — The Alan Hull Range indicator is one that has a sell signal built in, with one of four zones on the price chart indicating "sell" territory.

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