



The slide features a blue header bar at the top. Below it, a light blue rectangular box with a dark blue border contains the title "Exit strategies" in a large, bold, black font. To the left of the title is a yellow 3D illustration of a toolbox with three drawers; the top drawer is open and labeled "Free!", the middle drawer is labeled "Members", and the bottom drawer is labeled "Free Will". To the right of the toolbox, the date "October 2014" is written in a black font. Below the date is a small black silhouette of a person standing next to a line of text: "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." To the right of this text is a faint, light blue candlestick price chart showing an upward trend followed by a slight dip. At the bottom left of the slide, there is a copyright notice: "© Copyright 2013-2014, Robert B. Brain, *Brainy's Share Market Toolbox* — www.robertbrain.com". At the bottom right, it says "Revision: 2a".

Exit strategies

October 2014

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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This presentation...

This presentation was originally prepared for the U3A Manningham (Stockmarket Group) in November 2013, and has been updated for the BullCharts User Group in October 2014.

It introduces a number of exit strategies that can be deployed to help protect our trading capital and profits.

 Introduction

Exit strategies?

Is this important:

- capture profits?
- protect capital?

2

Exit Strategies

Are these important?

Is one more important than the other?



Introduction

Why sell a stock?

(why would we consider selling our shares in a company?)



3

When investing in the stock market
why might we sell a stock?

Give some thought to the reasons for selling. If we can understand the situations that might cause us to want to sell, then we are better able to decide which exit method to deploy.

See a list of possible reasons on the next slide.



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

Why might we sell a stock?

Here are a few reasons for selling.



Introduction

Exit strategies?

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

However, the astute investor/trader who wants to **protect capital** and **capture profits** carefully considers the possibilities for **exit strategies**, and ruthlessly implements the chosen strategies.

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When comparing the regular long-term buy-and-hold investor to the shorter-term nimble investor or trader, there is a clear difference in the approach to selling and exit strategies.



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.*

During the presentation,
please feel free to ask questions.

And we will be using the Australian BullCharts charting software to view charts (included within these presentation slides, and also interactively in the live presentation).



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.

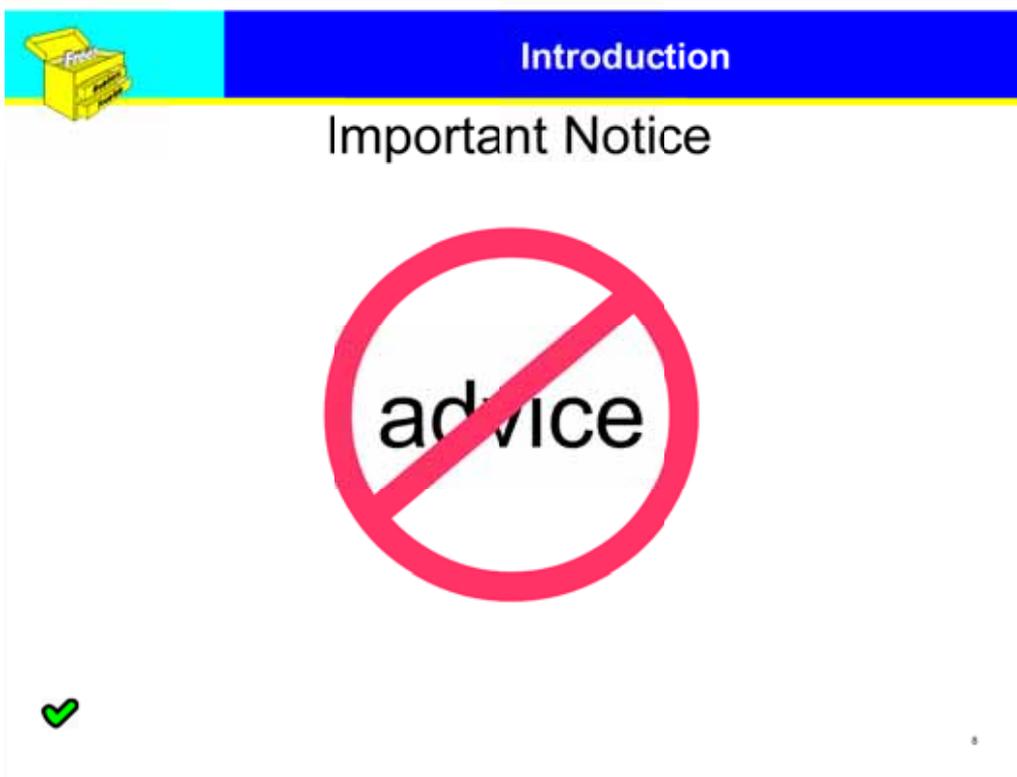


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Please note: No Advice

**This presentation
does not include
any advice!**

**It is for
general education
only.**



Introduction

Important Notice

advice

✓

No Advice!!



Introduction

BTW

- I send occasional email to U3A
- 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



Just a note before we start,
Robert sends useful emails occasionally to
the people who have “registered”, or
expressed interest.

Anyone can register interest,
and express specific interest in a few
different topics.

During this presentation a clip board with a
“signup” sheet will go around for people to
record their email address to receive
occasional emails

For details, visit:

<http://www.robertbrain.com/register.html>.



Introduction

Q & A ?

**Any questions
to start with?**

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Before we get under way,
are there any specific questions that you
have come armed with?



Exit Strategies — optimising

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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Let's look at a few of
the possible approaches to
protecting our capital
(on the following slides)...



Exit Strategies — optimising

The “percentage fall” approach

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

- Is very common amongst investors.
- 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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The “percentage fall” approach

This is the opinion of this particular investor, and might not be well received by many investors.

It just doesn't seem logical or sensible to sell (ie. to set a stop loss) at a specific percentage amount below the share price.

The opinions of the market participants are shown in the chart, so it makes sense to decide a price level based on the characteristics of the price chart, and not an arbitrary percentage amount.



Exit Strategies — optimising

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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Beware!

- 1) If the total of our profits is not enough to outweigh the total of our losses, then we can go broke taking profits.
- 2) It is a plain fact that we will not be able to get every investment 100% correct.
- 3) With profits that are large enough, even a small number of wins can outweigh a larger number of (smaller) losses.
- 4) If we let the profits run, then we are maximising our profit amounts. If a particular profit gets too high we can always reduce the position size to capture some profit.
- 5) The risk and money management is essential.



Exit Strategies — optimising

Price weakness

Consider an exit on ***price weakness***:

- Weakening trend
- Trend break
- MACD, Momentum, MA of Momentum
- Bearish divergence (MAD, RSI, Momentum, Money Flow, etc.).

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Price weakness

There are a number of ways to notice a weakening of the price on the chart. Some shorter term investors / traders use these methods to lock in profits early in anticipation of a possible further price fall.

If we notice price weakness, and close a position, and then the price runs higher, we need to just accept this as one of those situations where we can't be right 100% of the time. And just move on. Don't dwell on it, And don't stew on it thinking “if only...”.



Exit Strategies — optimising

What are the options?

Exit strategy options fall into categories:

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. Chart indicator exits.

Let's look at each category...

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Exit Strategy — categories

The large variety of different approaches to exit strategies seem to fall into one of five categories, as listed on this slide.



Exit Strategies — optimising

1. Time, clock, calendar exits

- (a) A new investment goes nowhere for days or weeks (opportunity cost)
- (b) Some people avoid the first hour of the trading day for entry.
- (c) Some days of the week, or of the month, are avoided by some investors (eg. Monday morning, Friday); also in the lead up to a long weekend.

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Time, clock, calendar exits

This category of exits is based on the time of day, or the day of the week, or the calendar.

This is because depending on the mood of the market, there could be more certainty (or more uncertainty) at certain times of the trading day, or days of the week.



Exit Strategies — optimising

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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Price target exits

This category of exits refers to specific price levels on the price chart, and can be derived by observing a number of different aspects of the recent trading ranges.



Overhead Resistance

When a price level on the chart has shown selling on several occasions in the past, then this price level is likely to see selling again the next time the price reaches that level (it is likely to happen again, but not certain).

So, we could anticipate this well in advance, and have an exit action ready.



Measure Rule

The Measure Rule is used by many investors and traders to anticipate a pause in price, or a resistance level. The price might not reverse at that price level, but there are occasions where it does, so it can be useful to be on the lookout and anticipate a possible reversal that might require an exit action.

Exit Strategies



A sample measure rule



A sample measure rule



A sample measure rule



Exit Strategies — optimising

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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Money-based exits

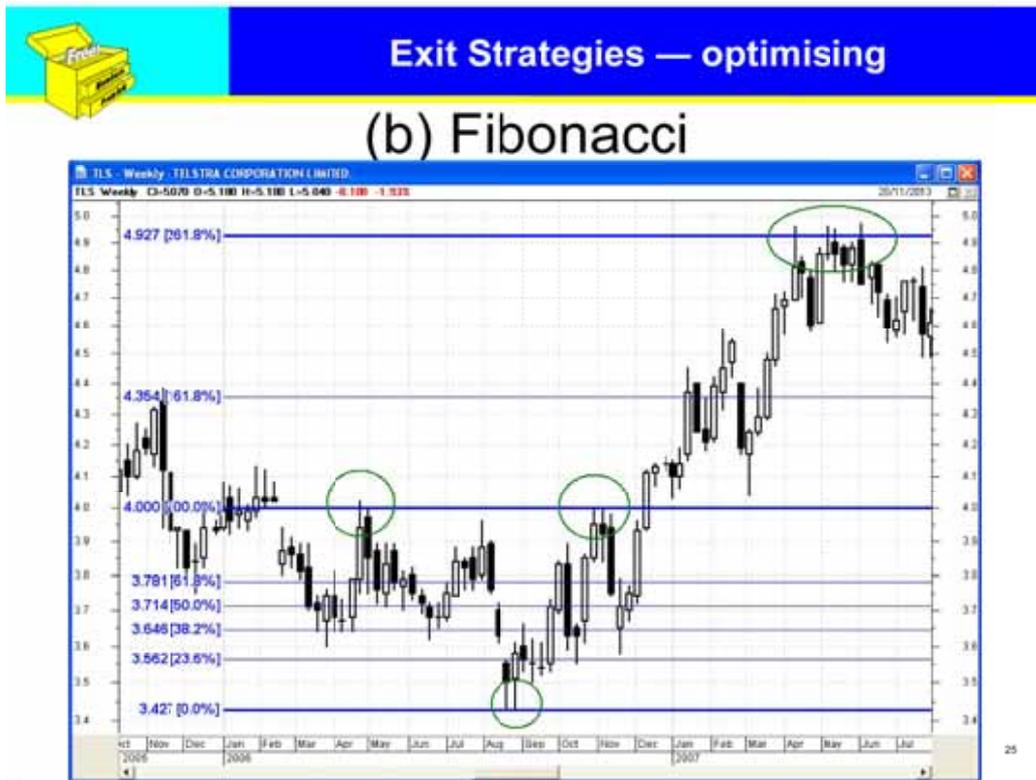
This category of exits is based on price action, and can change over time. Unlike the previous category where a price resistance (for example) on the chart will stay in force for a period of time, a trailing stop loss will vary over time as the price moves up and down over time.

The use of the Fibonacci Extension tool is also based on price chart features that can change. When we identify a recent price peak, and trough, on which to base the extension, we might find that a new peak is formed, requiring us to adjust the Fibonacci extension tool.



Sample Trailing Stop loss

Simply set the Stop Loss level just under the latest trough on the chart.



Sample Fibonacci Extension



Exit Strategies — optimising

4. Price chart features

- (a) Weakness or failure of the trend
- (b) Change of trend
- (c) Lowest Low of last “n” bars
- (d) Count Back Line (CBL)
- (e) Pivot Point reversal pattern
- (f) Reversal candlestick pattern.

(more over...)

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Price chart features

This category of exits is very important. Don't forget that the price chart summarises the opinions of all market participants. Their opinions about fair value are locked in the chart for everyone to see. They show up as the extremes in price movement.

Some of these are explained on the following slides.



Weakening trend and trend failure

This chart clearly shows the rising interest in share price, supported by the perception of the participants that the price is worth progressively more in March, April and May of 2008. The price jumped higher in early June, then could not break above about \$20. The market participants clearly agreed that Santos was not worth any more than this. By early July, there were more sellers than buyers, resulting in the price falling away.

The green uptrend line was broken in late June and signalled a possible change in sentiment.



Break of trend line

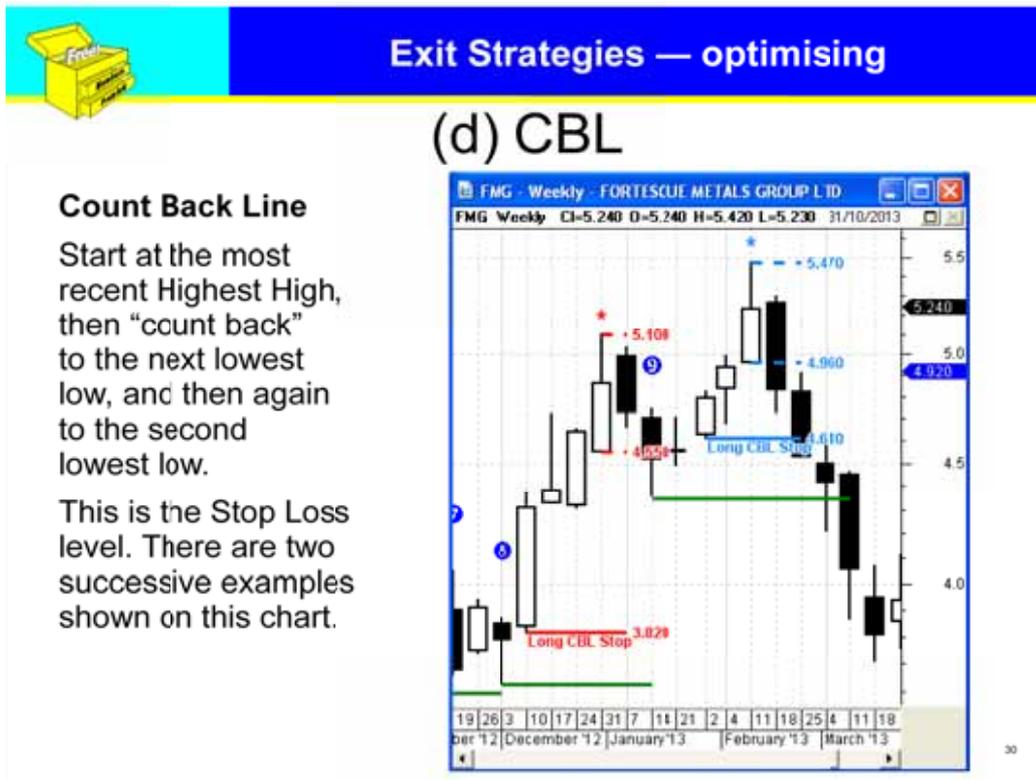
This example is very similar to the previous slide.



Note from mid-September 2012 that FMG's share price was in a rising trend (after the successively lower black candles in the prior month).

As the price made higher highs into October, any of the recent "lowest low" price values could have been used as a Stop Loss value. That is, the very bottom (the low) of candle '1' or '2' or '3'. These price values are the "lowest low" over the last few candles. For instance, at candle '4', the lowest low over 5 candles would have been the bottom of candle '2'. We always start counting from the "current" candle, so that the lower low of candle '1' would actually be the lowest low of the last 6 candles, starting at candle '4'.

If we were to use this chart indicator tool to determine a Stop Loss value, and never lower our stops, then the candle '8' can be seen to be lower than the lowest low of the indicator and might be a sell condition. If our exit strategy was such that we don't close a position with a spike low during the week (like candle '8'), but wait for a close below the stop level, then we would not have closed the position here. However, the price action in late February clearly broke below the lowest low tool and would have been a sell.



Count Back Line (CBL)

See the text on the chart for an explanation of how to determine the CBL value, and note two successive examples on this weekly chart.

(1) As at any point in January, the weekly candle in the week of 31 December was the last significant Highest High, so that is where we count from.

(2) In the week of 11 February, a new Higher High was formed, so the CBL is moved to this candle to start counting back.

 Exit Strategies — optimising

(f) Candle reversal patterns

- Bearish abandoned baby
- Engulfing bearish
- Harami bearish
- Dark cloud cover
- Evening star
- Hanging man
- Bearish kicker
- Shooting star



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Candle patterns

Candlesticks come in a large variety of shapes and sizes, and can tell us a lot about the underlying sentiment of the market participants.

And two or more consecutive candles when considered together can tell us even more.

Some candle patterns are considered to be reversal patterns. An understanding of these can be very useful.



Exit Strategies — optimising

5. Chart indicator exits

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

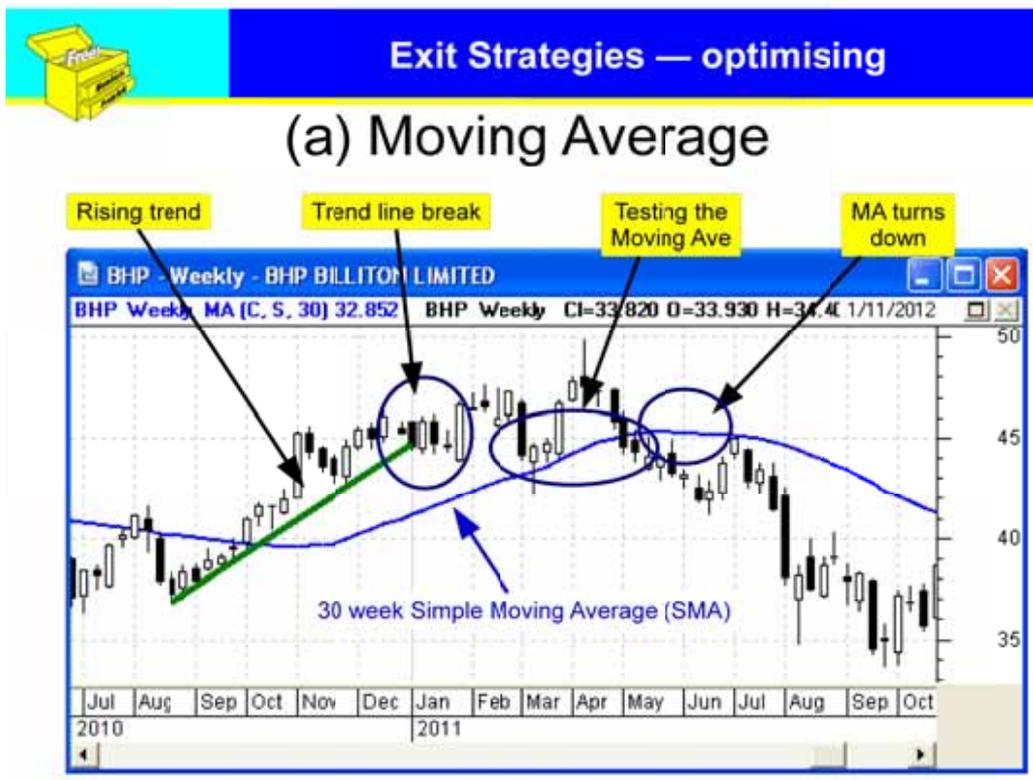
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Chart indicator exits

This category of exit strategies includes any of the chart indicators that can be used to signal a possible exit.

Some examples are given in the following slides.

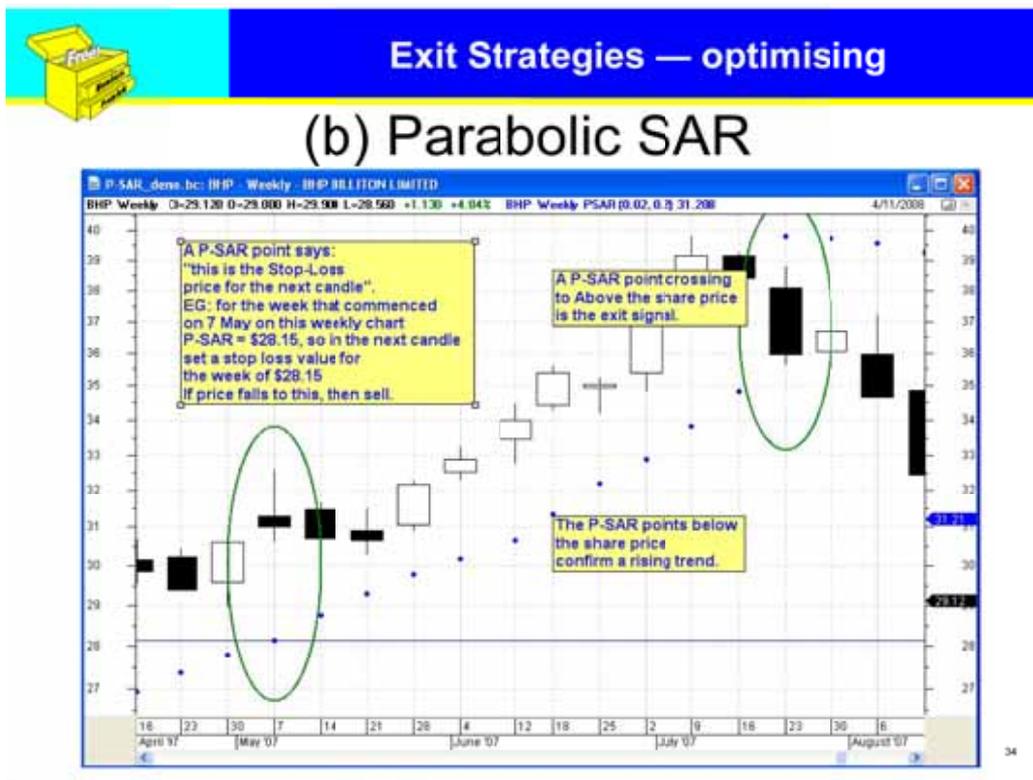


Moving Average

The humble moving average indicator is so useful at indicating possible exit conditions.

This sample weekly chart (which we looked at earlier) includes a 30 week Simple Moving Average (SMA). Note the price fell to the MA, indicating a weakness of the rising trend, then the price fell through the MA, and then the MA turned downwards. Each of these was a successive signal to indicate more and more weakness in the price.

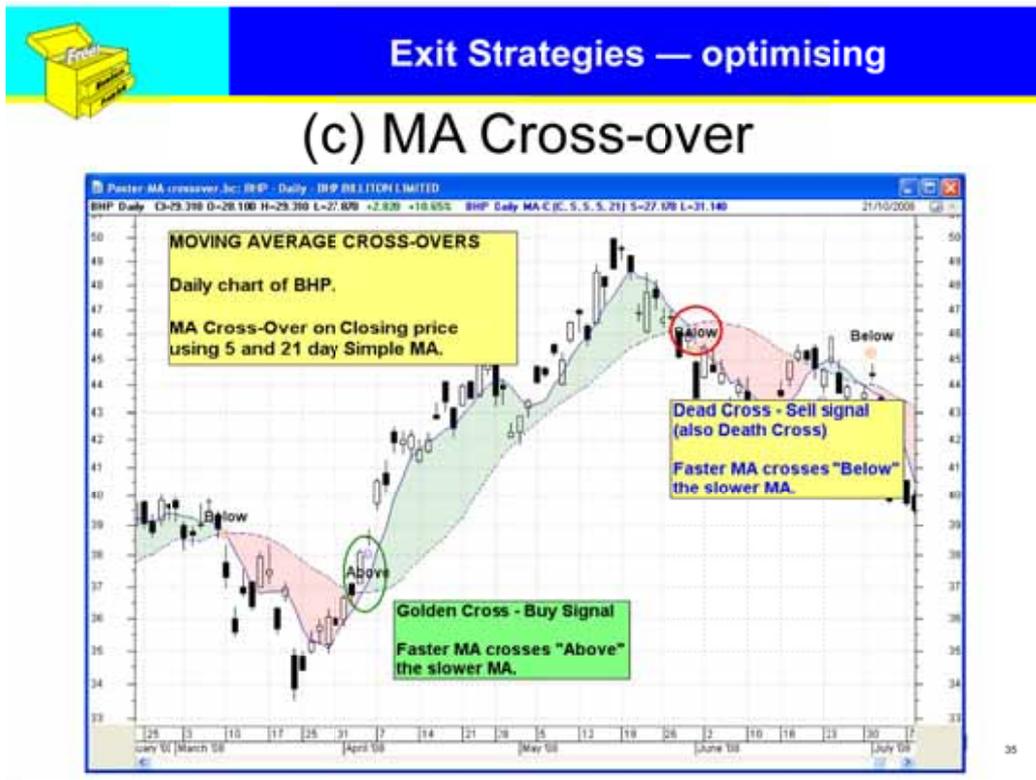
(This is basically the strategy of Stan Weinstein — refer to his book “Secrets for Profiting in Bull and Bear Markets”.)



Parabolic SAR (P-SAR)

This is a simple and easy to use Stop Loss tool.

See the notes on the slide for details.



Moving Average Cross-over

Many of the experts claim that this approach does not work, or that it is too late to signal a useful exit.

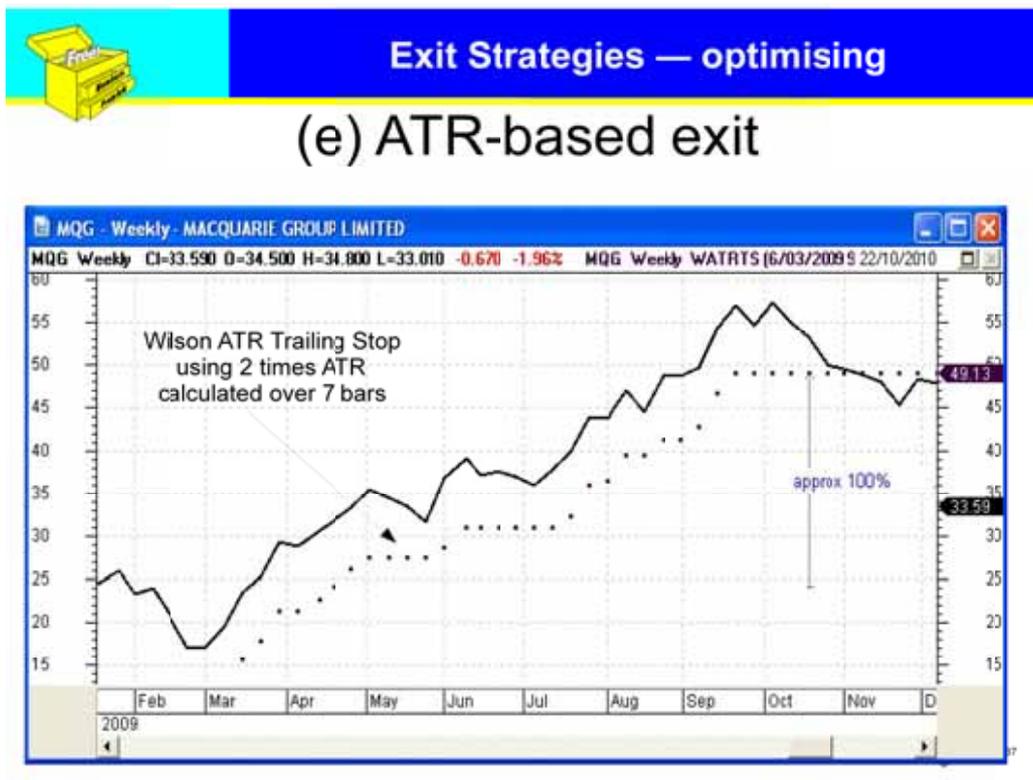
Nonetheless, the idea is that a buy (or sell) signal is generated when the two Moving Averages cross one way or the other, as shown on the slide.

Some investors can find this approach useful, on some stocks, and with a particular combination of the two MAs (eg. 5 and 11, or 12 and 26, etc.).



Bollinger Bands

This chart indicator has in-built sell indicators. To understand these, one needs to understand more about how to read this indicator.

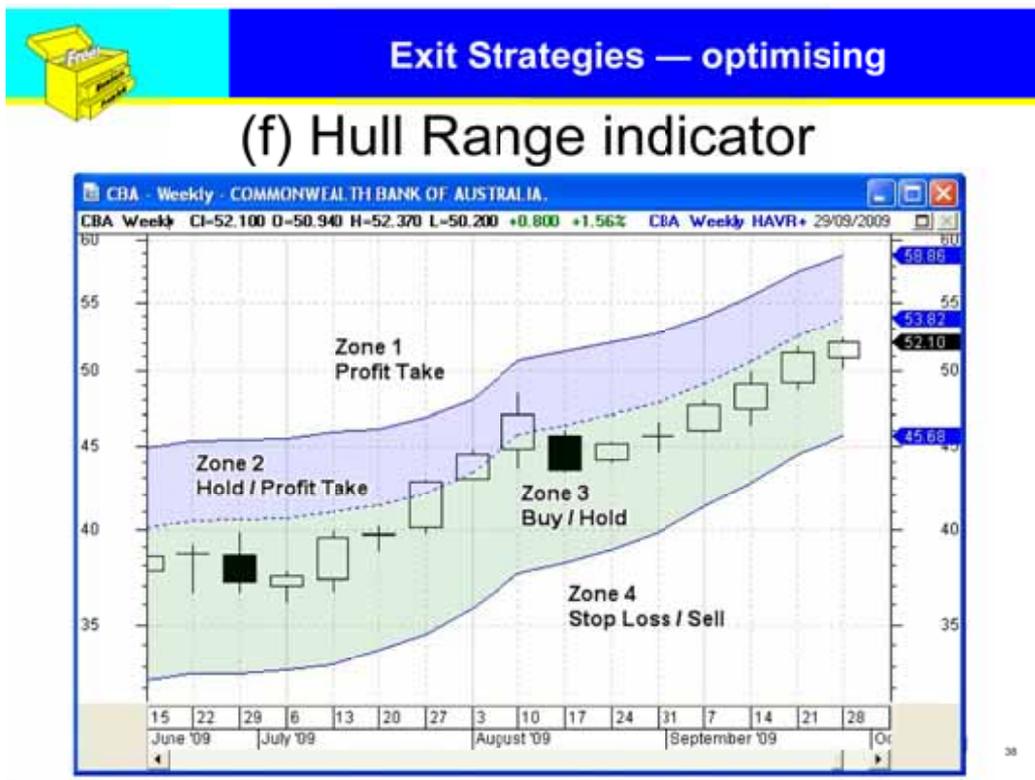


ATR*-based exits

Some people say that this is about the most logical indicator to use for exits, because it indicates the amount of recent price volatility, and flags when the price becomes more volatile and moves further than it's recent price range.

The series of dots on this chart is the Wilson ATR Trailing Stop chart indicator, based on 2 times the ATR amount calculated over the latest 7 weekly bars.

* ATR — Average True Range



Hull Range indicator

This chart indicator has a built-in exit approach, indicated by the “Zone 4” on the chart.

For more details about how to use this indicator, refer to Alan Hull's web site and course notes (or see details in Brainy's Share Market Toolbox).



Exit Strategies — optimising

Exit strategies

- There is a lot to this topic.
- The chart detail can get complex; but doesn't have to...
- There are many choices, so choose one and ignore the rest;
- More information?... (see next slide).

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(in summary)

Exit Strategies — optimising

Toolbox web page:

Share Market Toolbox
public information

Exit strategies

The long-term buy-and-hold investor rarely contemplates selling an investment position. However, the astute investor/trader who wants to protect capital and capture profits carefully considers the possibilities for exit strategies, and ruthlessly implements the chosen strategies.

You are here: [Share Market Toolbox](#) > [Share Market](#) > [Exit strategies](#)

Related links: [Robert's Philosophy](#), [Share Market GCMS](#), [Share Market Basics](#), [Power Trading](#), [Market Indexes](#), [Stop Loss](#), [Support and Resistance](#), [Trendspotting](#), [Fundamental Analysis](#), [Sentiment Investing](#), [Contrarian Investing](#), [Risk/Return](#), [Technical Analysis](#)

Introduction

Why should we consider implementing an exit strategy, and not just buy-and-hold?

We know that a market correction, or even a bear market, comes around too often, and that it can be very painful to capture profits and protect capital various times through the economic cycle. Not concerned? [See more details about corrections and traps...](#)

Reasons for exiting

When we exit from a position it could be for one of a number of reasons including the following:

1. For a new investment position, the share price has fallen and our investment decision on the occasion was not a good one, so we sell based on our pre-determined [Stop Loss](#) approach.
2. The money is needed elsewhere, so we liquidate a position in order to redeploy the cash.
3. The investment value has risen significantly, making it somewhat sensible to liquidate some or all of the position, perhaps to re-balance the allocation of our funds or to reduce the risks of the particular investment (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 (opportunity cost), so we liquidate in order to redeploy the capital elsewhere for a better performance.

More Information

Slide presentations - There is some preliminary and basic information in some of the slide presentations that Robert has prepared and delivered at various meetings.

- [Stop Loss - Introduction](#) - a basic and simple introduction to the topic, presented to a User Group in 2007 (includes Speaker Notes for Premium Toolbox Members).
- [Seven ways to determine a Stop Loss](#) - a simple presentation that lists and displays several ways to determine a Stop Loss.

eBook Articles - Share Market Toolbox Members can see more details at the following eBook Articles:

- [eBook: "Strategies to enter and exit"](#)
- [eBook: "Support and Resistance"](#)
- [eBook: "Stop Loss Introduction"](#)
- [eBook: "Stop Loss Basics"](#)
- [eBook: "Psychic SAR"](#)
- [eBook: "Trading with and Away from Stop Loss"](#)

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Includes two free eBook (PDF) Articles, and many more for Toolbox Members

Relevant web page

There is a relevant web page in the Share Market Toolbox that includes more information and links to further details.



Exit Strategies — optimising

That web page

Here is a link to that web page:
Exit strategies:
www.robertbrain.com/share-market/exit-strategies.html

Or go to the Toolbox Home page, and follow the link to “The Share Market”, then use the menu options.

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See this page on the web

To find this web page,
go to the Toolbox Home page:
www.robertbrain.com then click on the link to
“The Share Market”, then utilise
the menu options near the top of the page.

Exit Strategies — optimising
Toolbox eBook Articles...

www.robertbrain.com/articles

Investing / trading strategies

Strategy concepts

- SF-6050 Keep for dividends? + (see page 1 here)
- SF-6115 Strategies for entry and exit * + (see page 1 here)
- SF-6130 Breakouts - introduction (see page 1 here)
- SF-6150 Correlation (see page 1 here)

Strategy considerations

- SF-6200 Trading Strategy Considerations * (see page 1 here)
- SF-6210 Trading Strategy - Volume and Liquidity (see page 1 here)
- SF-6215 Trading Strategy - Finding liquid stocks (see page 1 here)
- SF-6250 Strategies - GICS, Indexes, Sectors (see page 1 here)
- SF-6260 Sectors and the basis (see page 1 here)
- SF-6310 Investing - in cyclical stocks (see page 1 here)

Sample strategies - introduction

- SF-6400 Sample Trading Strategies - Introduction (see page 1 here)

Indicators and tools for stops

- TA-4410 On Balance Volume (OBV) (see page 1 here)
- TA-4510 Momentum (see page 1 here)
- TA-4630 Money Flow and the Twigg's MF indicator (see page 1 here)
- TA-5020 Step Loss Basics (see page 1 here)
- TA-5100 Indicators and Tools for Stops (see page 1 here)
- TA-5210 Divergence (see page 1 here)
- TA-5300 Avoid pining too much (see page 1 here)
- TA-5420 Measure rule (see page 1 here)

Special applications and strategies

- TA-6030 Exit strategies - Introduction * + (see page 1 here)
- TA-6031 Exit strategies - Part 1 Time, price, money + (see page 1 here)
- TA-6032 Exit strategies - Part 2 Price chart features + (see page 1 here)
- TA-6033 Robert's Weekly Watchlist Strategies (see page 1 here)
- TA-6100 Weinstein - 30 week SMA and more (see page 1 here)
- TA-6150 Alan Hull - MMA, Range, ROAR (see page 1 here)

eBook (PDF) Articles

In the Share Market Toolbox, for Toolbox members, there are a number of relevant eBook Articles.

Find this “Articles Table of Contents” web page from the links on the Toolbox Home Page www.robertbrain.com



Exit Strategies — optimising

Q & A ?

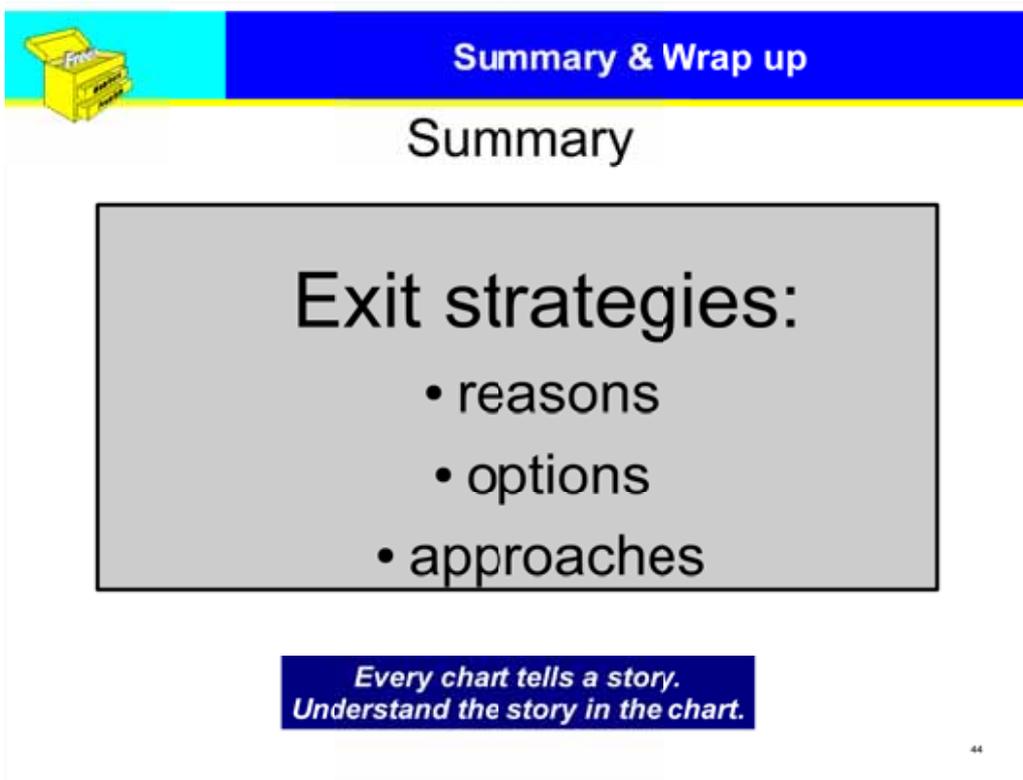
Any questions?

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Toolbox Members can email questions about this presentation to Robert.



Summary & Wrap up

Summary

Exit strategies:

- reasons
- options
- approaches

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

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SUMMARY

In this session we have looked at some aspects of exit strategies.

We have assumed that we are already convinced of the merits of utilising a sound exit strategy.



Brainy's Share Market Toolbox

BTW

- I send occasional email to U3A
- 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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Just a note before we start,
Robert sends useful emails occasionally
to the people who have “registered”, or
expressed interest.

Anyone can register interest,
and express specific interest in a few
different topics.

For details, visit:

<http://www.robertbrain.com/register.html>.



Summary & Wrap up

Don't forget my Toolbox

- Brainy's **Share Market Toolbox**
 - www.robertbrain.com
 - Loads of eBook (PDF) Articles
 - Info: share market, charting, BullCharts
 - Weekly Market Updates and Watch List
 - monthly e-Newsletters
- Good software – BullCharts
www.robertbrain.com/bullcharts/
- My contact details:
web site above, or phone: 0438 355 910



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Robert's Share Market Toolbox

The toolbox has a lot more information to help with tackling the share market.



Summary & Wrap up

THE END

See free stuff here:
www.robertbrain.com/free

Thank you.

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Summary & Wrap up

THE END

THANK YOU

(backup slides follow)

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Thank you
for your interest and attention.