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.
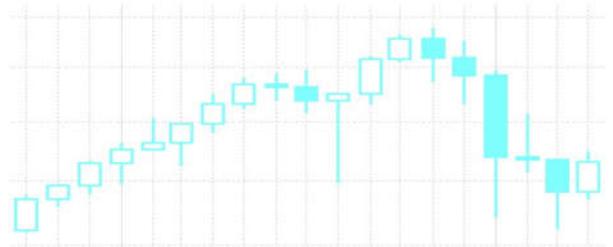
Revision: 4e

Introduction

Exit strategies?

Is this important:
- capture profits?
- protect capital?

Why sell a stock?

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

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*).

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.

Interactive...

- Please ask questions.

- Let's discuss details.

- Price charts prepared
  using BullCharts software.

www.bullcharts.com.au

BullCharts

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

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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Important Notice

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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...

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.

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.

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.).

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...

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

(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. ...

(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.

(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.

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...)

(a) Overhead resistance

(b) The Measure Rule

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The Measure Rule

ABC - Weekly - ADELAIDE BRIGHTON LIMITED
ABC Weekly Cl=3.330 O=3.300 H=3.370 L=3.280 +0.020 +0.60% 31/05/2013
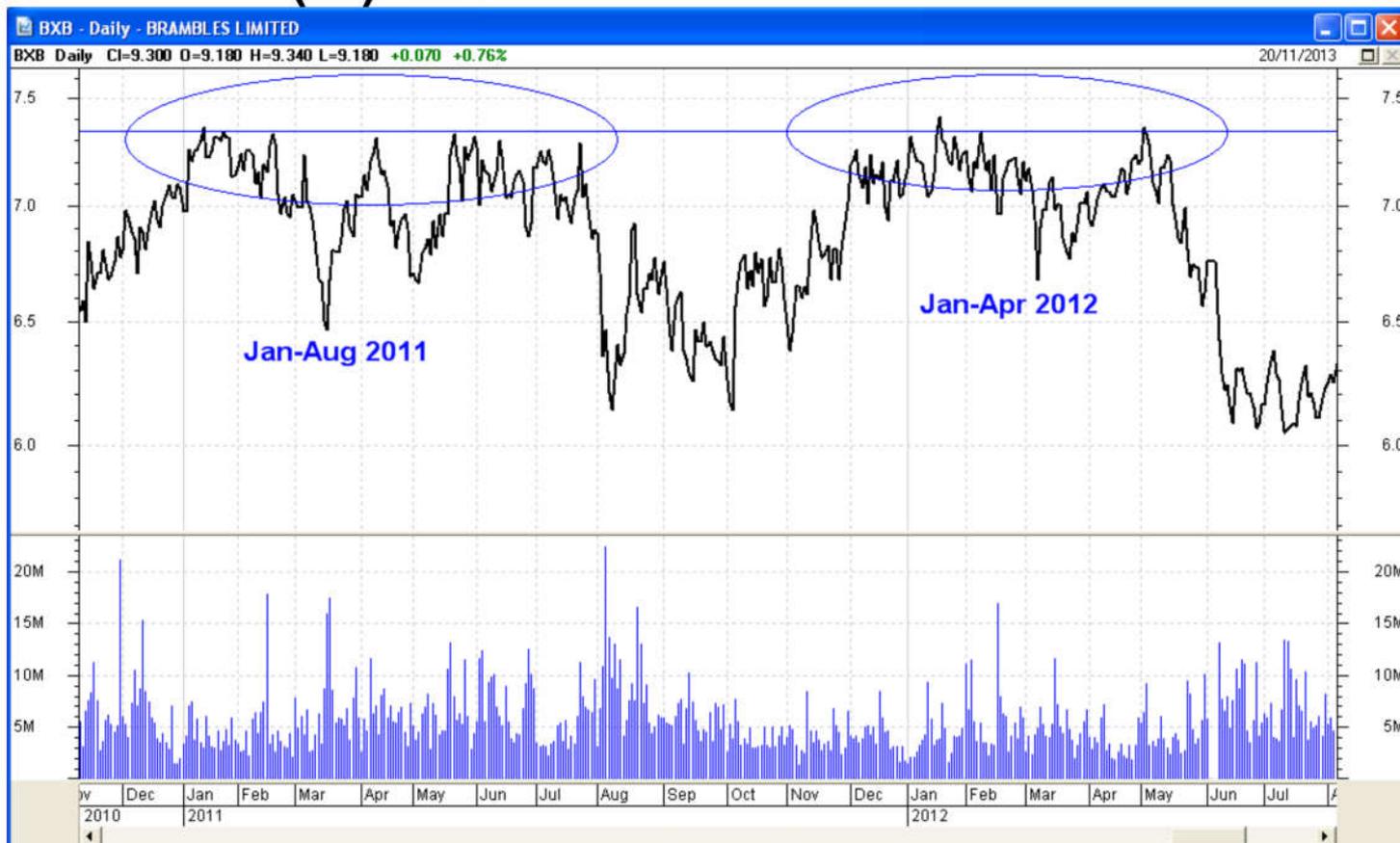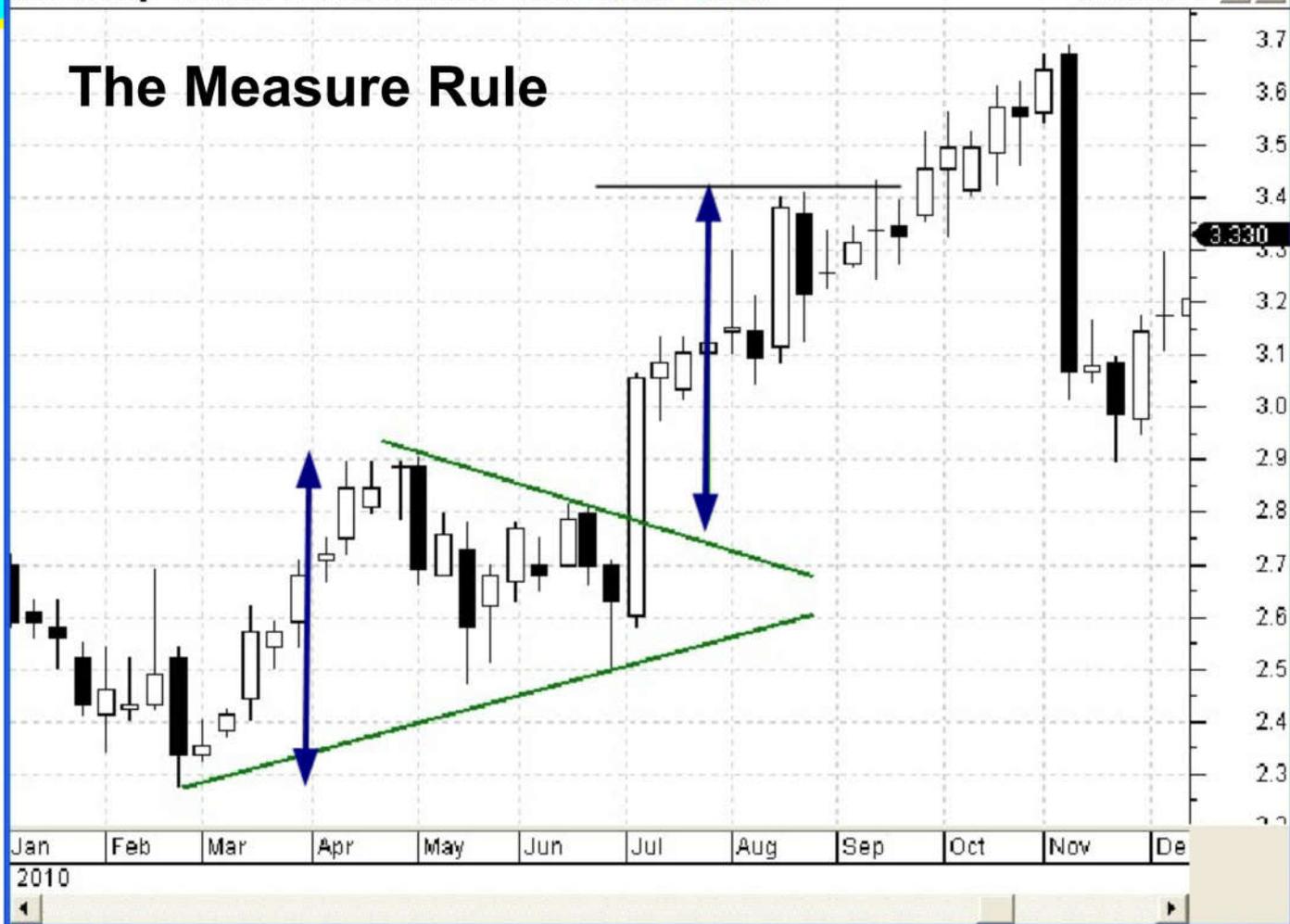
Exit Strategies – optimising

The Measure Rule

ANZ - Weekly - ANZ BANKING GRP LTD
ANZ Weekly Cl=27.540 O=27.600 H=28.470 L=27.180 -0.140 -0.51% 31/05/2013

close = $24.62
close = $20.74
high = $17.64
low = $14.98

GDO - Daily - GOLD ONE INTERNATIONAL LIMITED

GDO Daily CI=0.180 O=0.175 H=0.180 L=0.170 +0.010 +5.88%   31/05/2013

The Measure Rule

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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...)

(a) Trailing Stop Loss

CBA daily chart

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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...)

(a) Weakening trend and failure

(a) Break of trend line

Rising trend

Trend line break

(c) Lowest Low of "n" bars

The green lines indicate possible Stop Loss levels sitting under recent price troughs.

The dotted (blue) line is the 5-bar "High-Low Channel" chart indicator, with the High line hidden. For each weekly candle, the dotted line indicates the "lowest low" over the last 5 candles.

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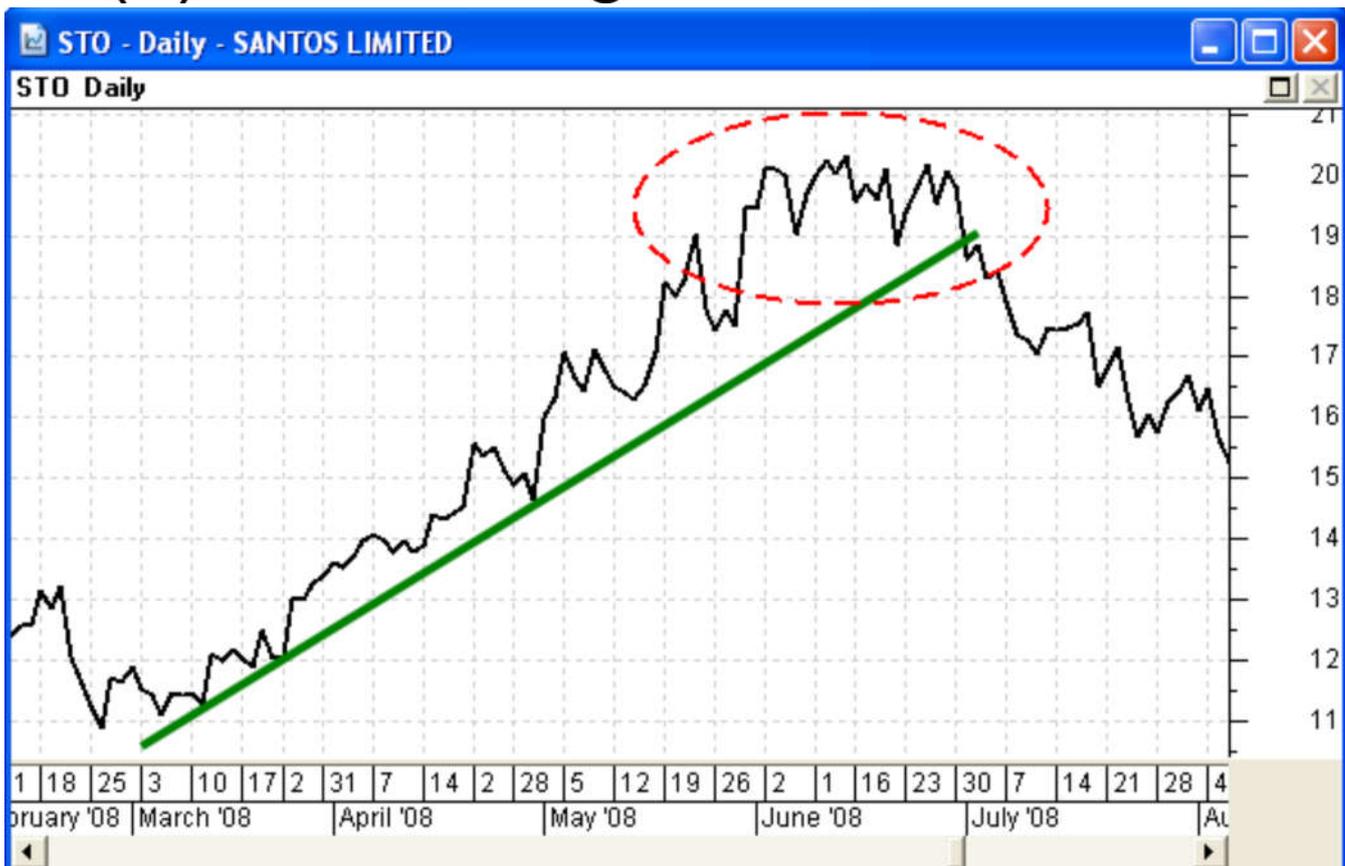
(d) CBL

Count Back Line

Start at the most recent Highest High, then "count back" to the next lowest low, and then again to the second lowest low.

This is the Stop Loss level. There are two successive examples shown on this chart.

FMG - Weekly - FORTESCUE METALS GROUP LTD
FMG Weekly Cl=5.240 O=5.240 H=5.420 L=5.230 31/10/2013

Long CBL Stop
Long CBL Stop 3.820

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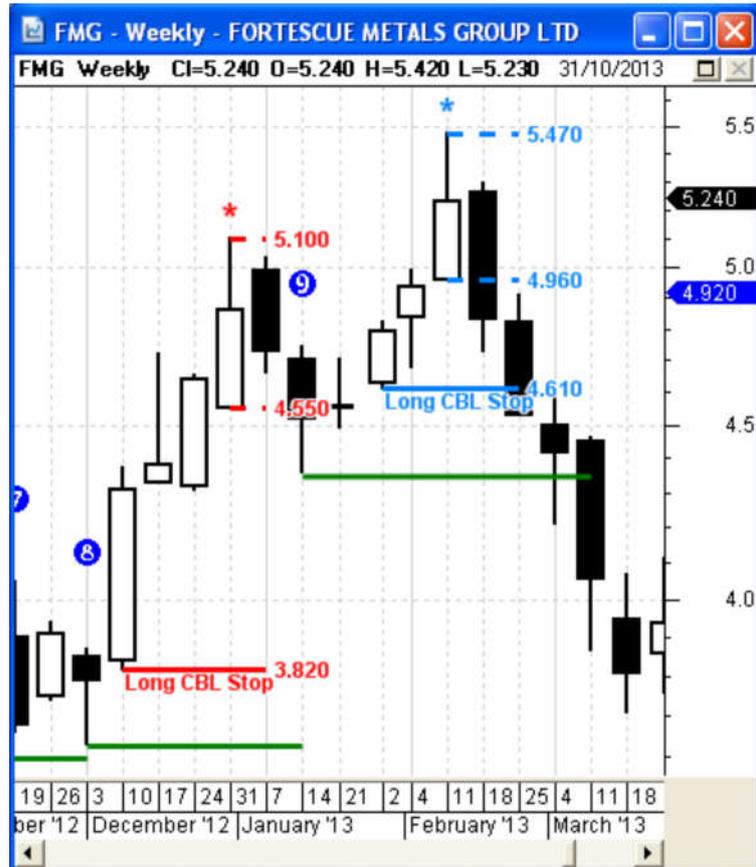
(e) Candle reversal patterns

- Bearish abandoned baby
- Engulfing bearish
- Harami bearish
- Dark cloud cover

- Evening star
- Hanging man
- Bearish kicker
- Shooting star
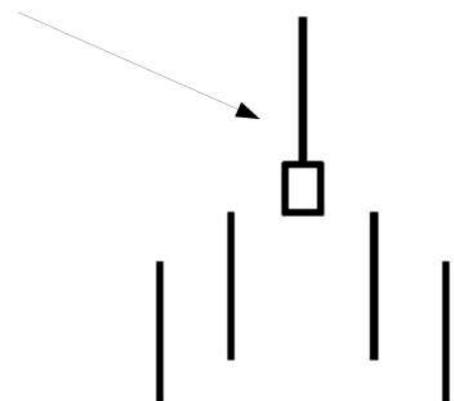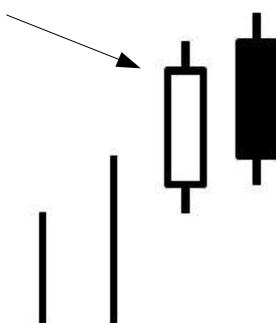
(f) Pivot point reversal

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.

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.

(a) Moving Average

Rising trend

Trend line break

Testing the Moving Ave

MA turns down

30 week Simple Moving Average (SMA)

BHP - Weekly - BHP BILLITON LIMITED

BHP Weekly MA (C, S, 30) 32.852   BHP Weekly   Cl=33.820 O=33.930 H=34.40 1/11/2012
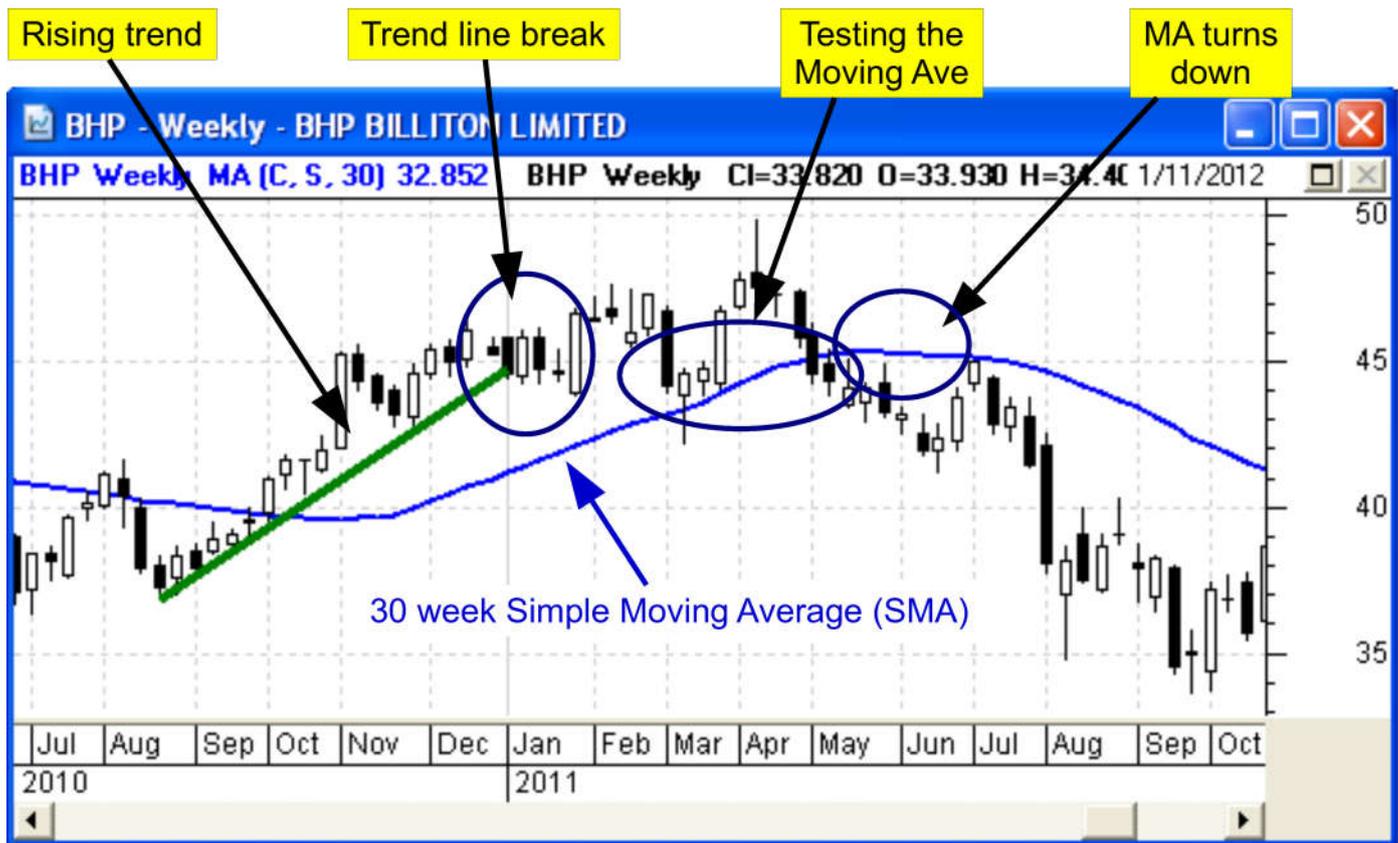
(a) MA version 2

Alternate parameters can be used.
For example:-

- MA(12), MA(14), MA(9)

- Simple MA

- Weighted MA

- Exponential MA
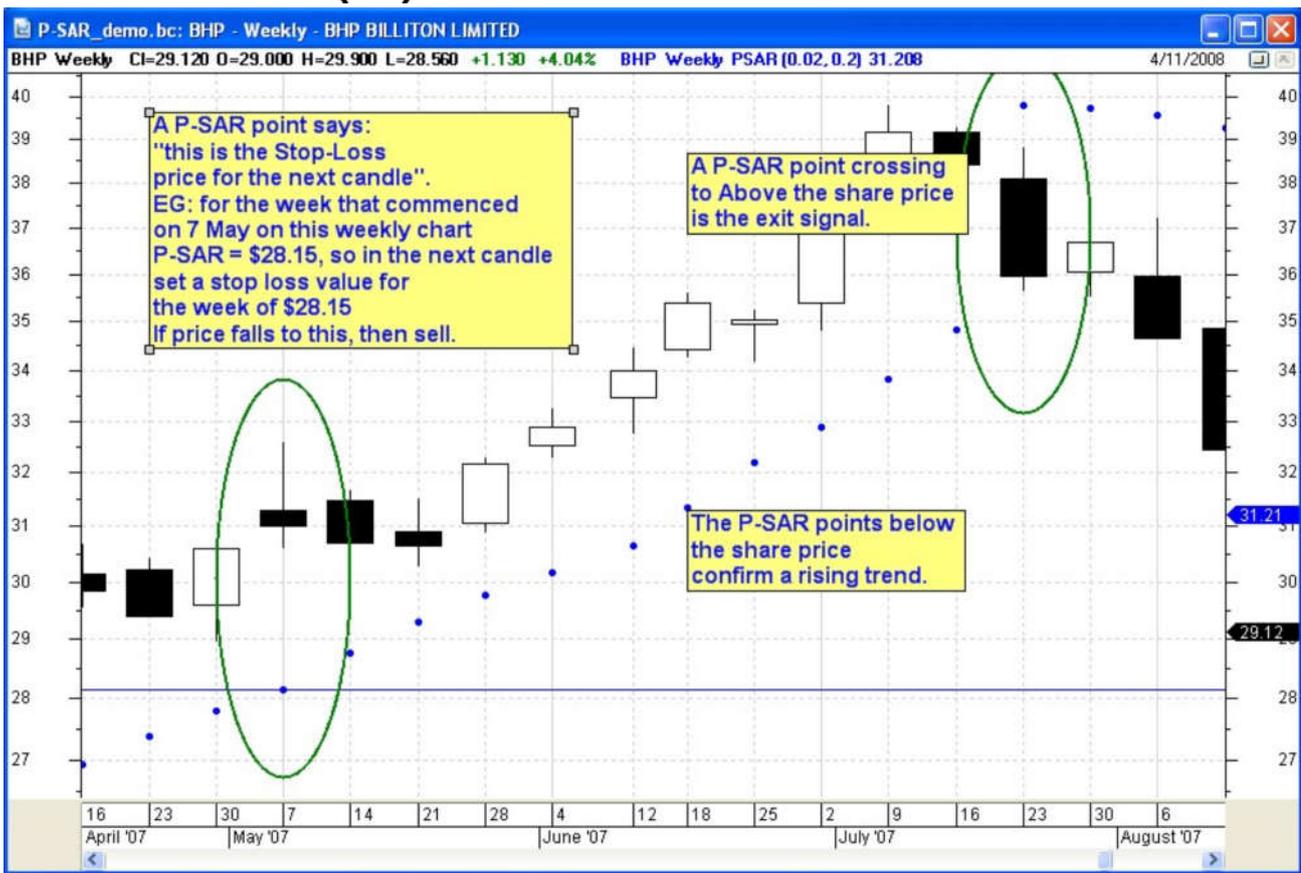
(b) Parabolic SAR

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(c) MA Cross-over

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(d) Bollinger Bands

BollingerBands_demo.bc: WPL - Weekly - WOODSIDE PETROLEUM LIMITED

WPL Weekly Cl=42.410 O=43.000 H=43.070 L=41.980 +0.530 +1.27%   WPL Weekly BB (C,S,14, 3/11/2008

Bollinger Bands tight. Low price volatility. Suggests price explosion is coming.

Big white candle with higher Volume signals the start of a new upleg.

(e) ATR-based exit

MQG - Weekly - MACQUARIE GROUP LIMITED

MQG Weekly Cl=33.590 O=34.500 H=34.800 L=33.010 -0.670 -1.96%   MQG Weekly WATRTS (6/03/2009 9 22/10/2010

Wilson ATR Trailing Stop using 2 times ATR calculated over 7 bars

approx 100%
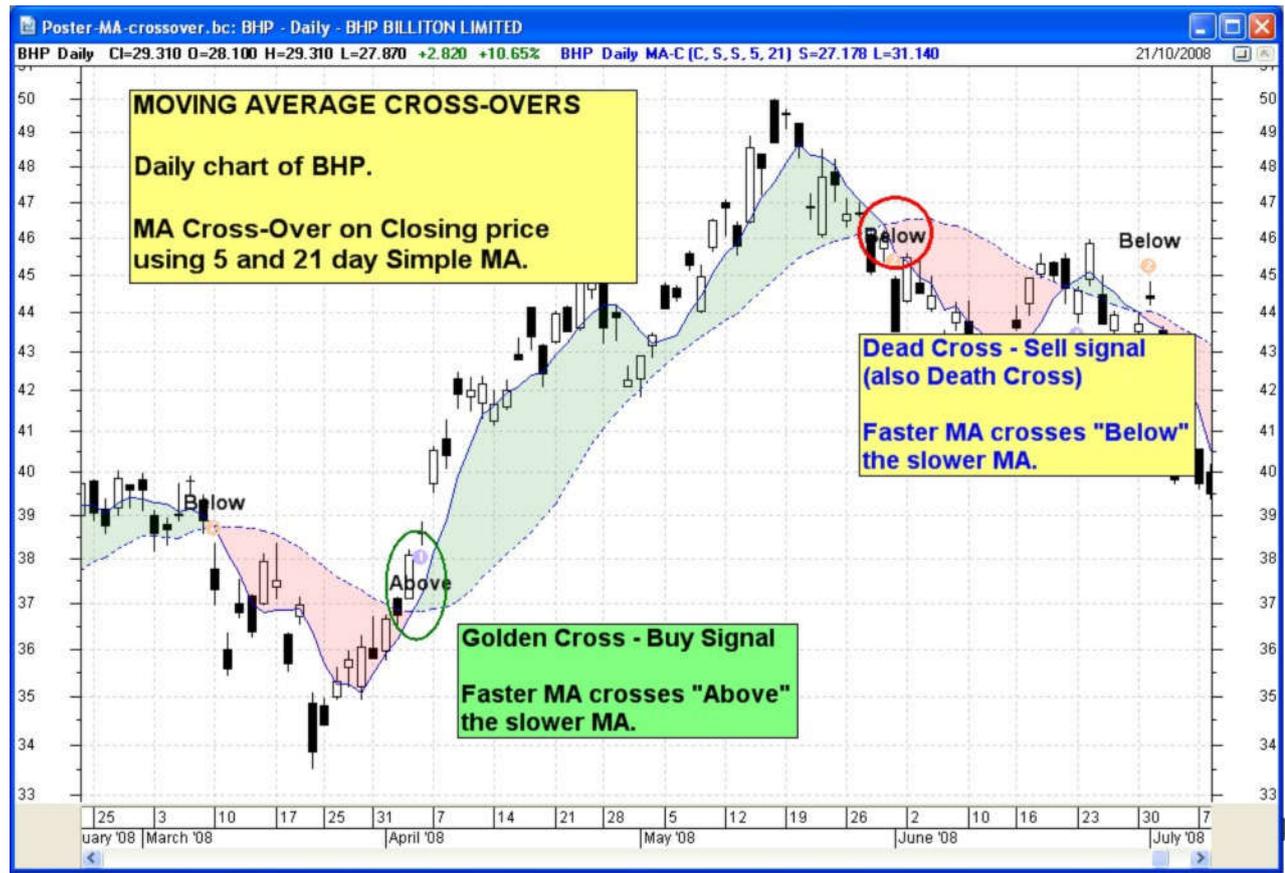
(f) Hull Range indicator
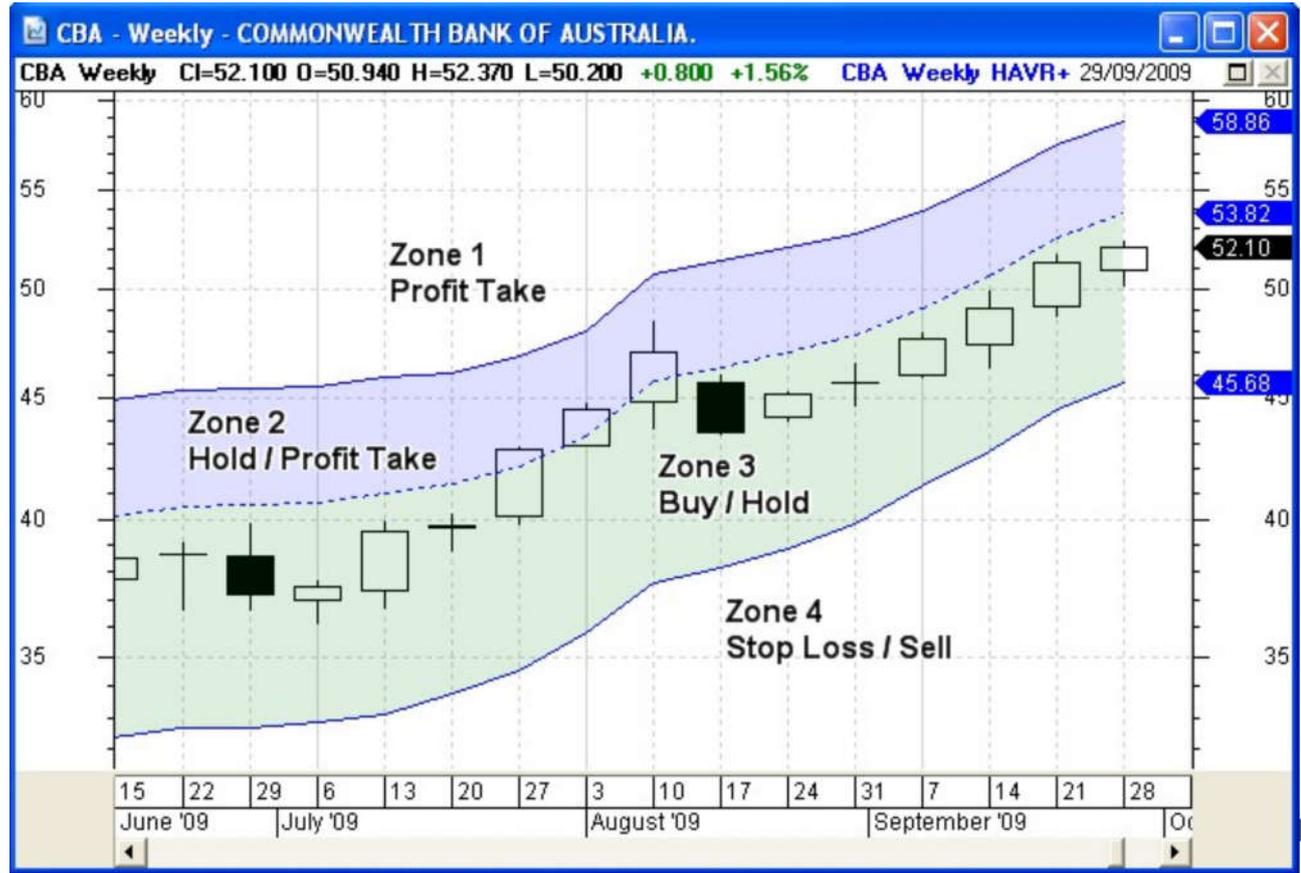
(g) Jim Berg

JB Trailing Stop
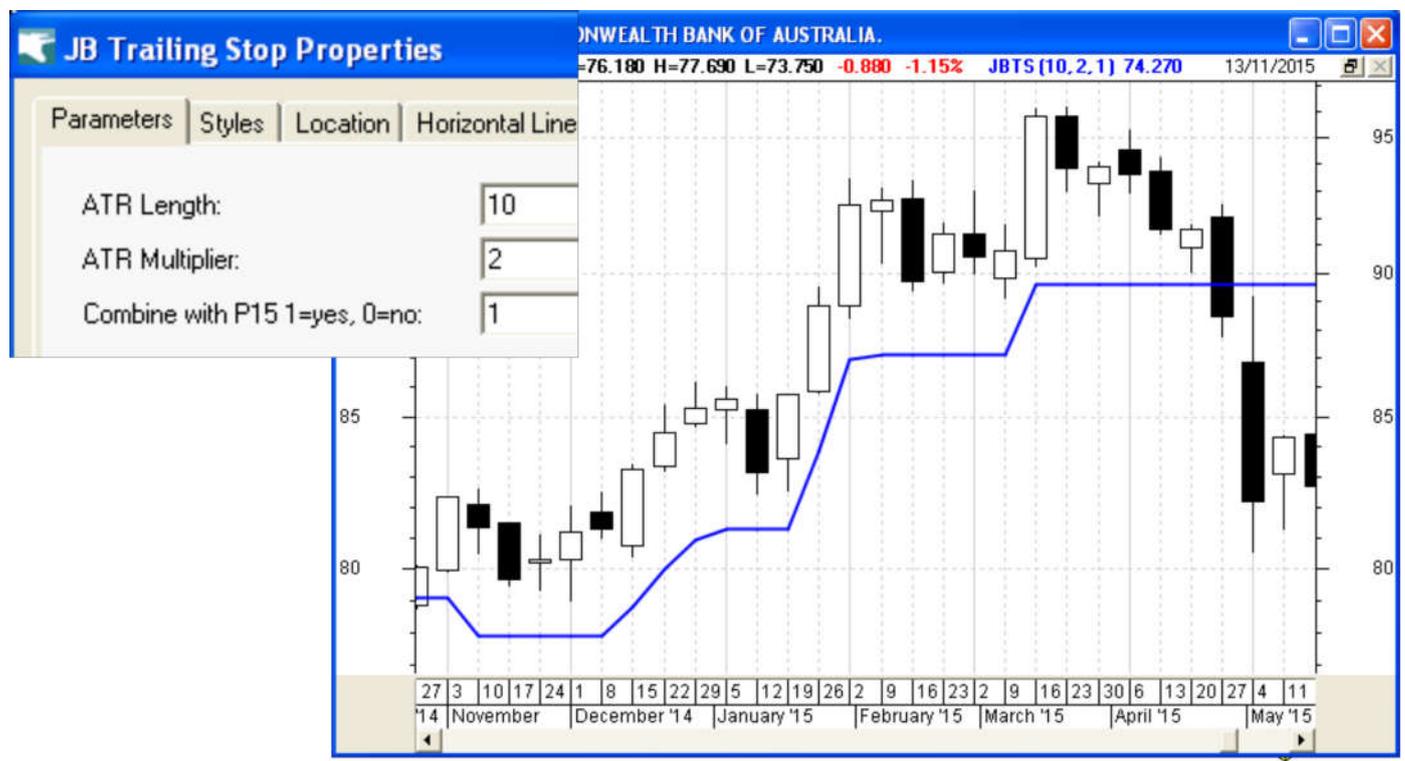
(g) Jim Berg

JB Volatility Profit Taker
(incorporates Trailing Stop)
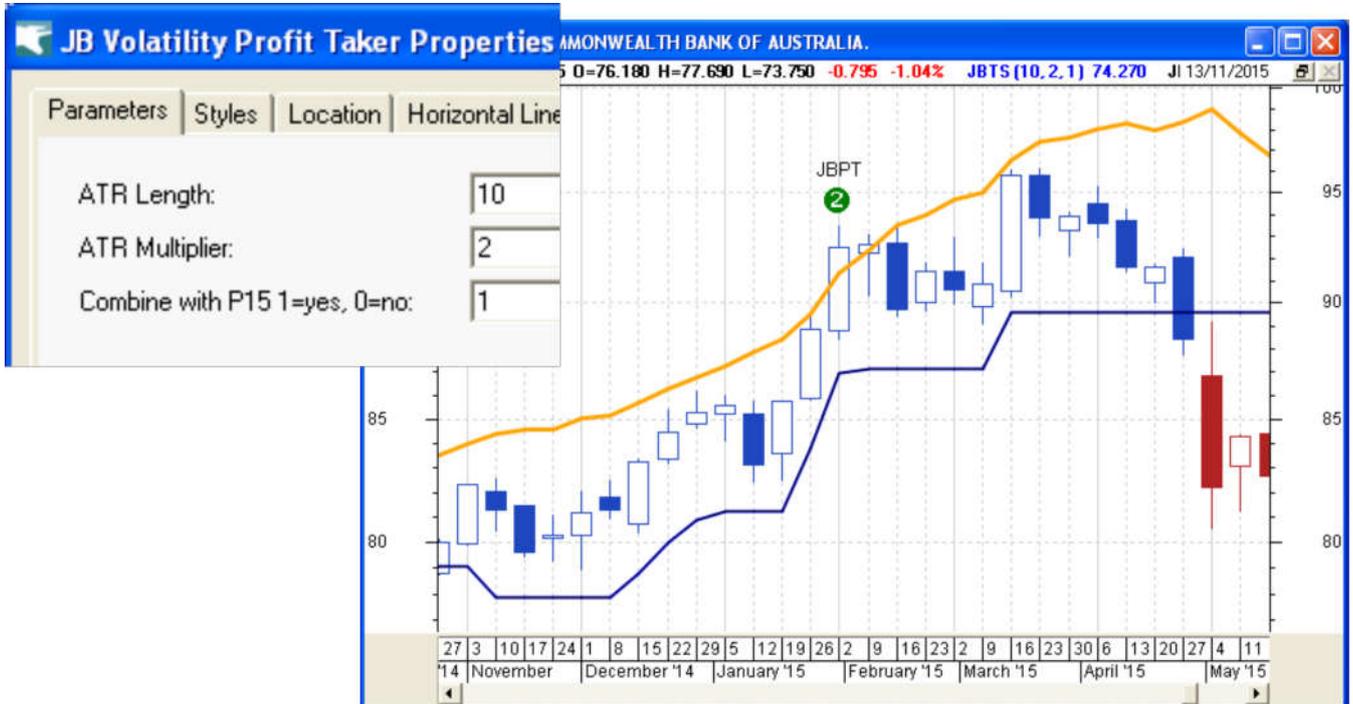
(g) Jim Berg (summary)

- 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).

More possibilities

- RSI over-bought / over-sold

- MACD Histogram over-bought / over-sold

- Stochastic

- Chandelier Stops

- MA Cross-overs (3/12, or 7/12, or 8/24)

- Bollinger Bands

- (others?…)

SUMMARY

- There is a lot to the topic of Exit Strategies;

- The chart detail can get complex
  but doesn't have to be;

- There are many choices, so
  choose one (or two) and ignore the rest;

- More information?... (see next slide).

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- TA-5020 Stop Loss Basics
  (see page 1 here)
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  (see page 1 here)
- TA-5210 Divergence
  (see page 1 here)
- TA-5300 Avoid paying too much
  (see page 1 here)
- TA-5420 Measure rule
  (see page 1 here)

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  (see page 1 here)
- TA-6032 Exit strategies - Part 2 Price chart features +
  (see page 1 here)
- TA-6033 Robert's Weekly Watchlist Strategy
  (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)

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Summary

Exit strategies:

- reasons

- options

- approaches

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

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THE END

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