

# Taking emotion out of deciding when to hit the sell button

TECHNICAL  
ANALYSIS  
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FOR the canny investor wanting to make money on the sharemarket, knowing when to sell is as important as deciding when to buy. Often investors make the mistake of "falling in love" with a stock that has performed well and made them paper profits. This prevents them selling and can lead to the disappearance of paper profits as the stock goes in the wrong direction.

Robert Brain, Australian Technical Analysts Association board member, this week shows a useful technical analysis tool that can help investors choose when to get out of a stock.

"The share price of any company is not likely

to keep rising forever without some sort of pause or price retrace-ment," Brain says. "A key principle behind the success of a good investor/trader is to accept that if a stock's price does fall, then it should be sold to preserve capital and to capture profits."

Investors can simply set themselves a price at which they will sell, allowing themselves a certain profit. But the technical analysis tool Brain demonstrates this week, the Wilson ATR Trailing Stop (WATRTS) can be used to make the decision, taking the emotion that can cloud judgment out of trading.

WATRTS is the brain-



child of a Tasmanian technical analyst named Leon Wilson. It is shown on this week's chart as a series of dots. How it is created is too complicated to go into here, but it is calculated from a recent range of the stock's trading price.

For the purpose of this

exercise, Brain uses WATRTS on a chart of Macquarie Group. Our notional wily investor bought into Macquarie when the general market bottomed in March 2009, paying about \$20 a share. (Macquarie bottomed the month before at \$15.) As Macquarie's price rose

through the year, the WATRTS line stayed below the Macquarie share price line on the chart.

But in October, Macquarie peaked at about \$58 and late that month the Macquarie chart line fell through the WATRTS line. Following

the rule "if the share closes below WATRTS line, sell immediately—no questions", Macquarie would have been sold early in November at about \$50.

An investor using this methodology would have doubled their money in about seven months. WATRTS charting tools are available on some technical analysis software packages. It is used here to demonstrate a principle only. A range of other technical and trading solutions exist to help investors decide when to sell.

DISCLAIMER: Neither BusinessDay nor Mr Brain is recommending any particular trading software.

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