

# Exit Strategies

**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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**Introduction**

**Exit strategies?**

Is this important:

- capture profits?
- protect capital?



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**Introduction**

**Why sell a stock?**

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



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 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*).

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 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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 Introduction

## Interactive...

- Please ask questions.
- Let's discuss details.
- Price charts prepared using BullCharts software.



[www.bullcharts.com.au](http://www.bullcharts.com.au)

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

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 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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 Introduction

### Important Notice





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 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](http://www.robertbrain.com)



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 Introduction

Q & A ?

Any questions to start with?

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 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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 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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# Exit Strategies

 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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 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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 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 Strategies

**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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## 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. Elliot: wave count, or time and price balance, etc).

*(more over...)*

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**Exit Strategies — optimising**

## (a) Overhead resistance

The chart displays price fluctuations over time. Two distinct peaks are highlighted with blue circles and labeled 'Jan-Aug 2011' and 'Jan-Apr 2012'. The price rises to these levels and then falls, demonstrating overhead resistance. A volume indicator is shown at the bottom of the chart.

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# Exit Strategies



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# Exit Strategies



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- 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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# Exit Strategies



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# Exit Strategies

**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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**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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**Exit Strategies — optimising**

### (a) Moving Average

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# Exit Strategies

## Exit Strategies — optimising

### (b) Parabolic SAR



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## Exit Strategies — optimising

### (c) MA Cross-over



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## Exit Strategies — optimising

### (d) Bollinger Bands



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# Exit Strategies



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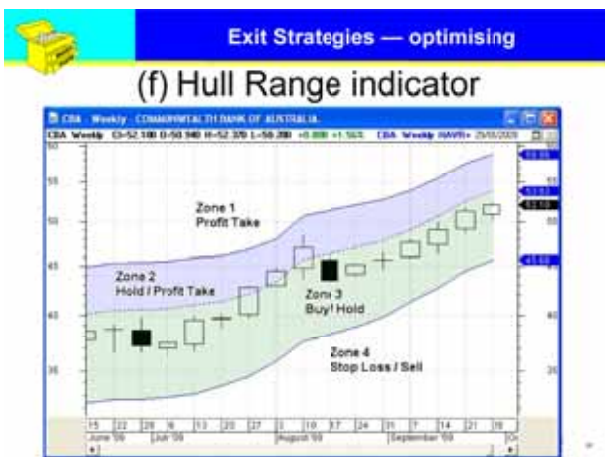
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**Exit Strategies — optimising**

## 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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# Exit Strategies

**Exit Strategies — optimising**

**Toolbox web page:**

The long-term buy-and-hold investor rarely contemplates selling an investment position. However, the actual transaction price often results in a profit or loss and various profits carefully considers the possibilities for exit strategies and ultimately implements the chosen strategy.

**Introduction**

Why should an investor implement an exit strategy, and how can it be done?

**Reasons for exiting**

1. For a profit (or a loss) - the exit price has fallen (or risen) to a level that is not acceptable to the investor.
2. The investor has reached a target price or a target return.
3. The investor has reached a target return or a target return on investment.
4. The investor has reached a target return on investment or a target return on investment.
5. The investor has reached a target return on investment or a target return on investment.

**More information**

- [Exit strategies - Part 1: The long-term buy-and-hold investor](#)
- [Exit strategies - Part 2: The long-term buy-and-hold investor](#)

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

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**Exit Strategies — optimising**

**That web page**

Here is a link to that web page:

Exit strategies:  
[www.robertbrain.com/share-market/exit-strategies.html](http://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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**Toolbox eBook Articles...**

[www.robertbrain.com/articles](http://www.robertbrain.com/articles)

**Strategy concepts**

- [Exit strategies - Part 1: The long-term buy-and-hold investor](#)
- [Exit strategies - Part 2: The long-term buy-and-hold investor](#)

**Strategy considerations**

- [Exit strategies - Part 1: The long-term buy-and-hold investor](#)
- [Exit strategies - Part 2: The long-term buy-and-hold investor](#)

**Special applications and strategic:**

- [Exit strategies - Part 1: The long-term buy-and-hold investor](#)
- [Exit strategies - Part 2: The long-term buy-and-hold investor](#)

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Q & A ?

Any questions?

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**Summary & Wrap up**

Summary

Exit strategies:

- reasons
- options
- approaches

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

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**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.
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# Exit Strategies

 **Summary & Wrap up**

## Don't forget my Toolbox

- Brainy's **Share Market Toolbox**
  - [www.robertbrain.com](http://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/bulcharts/](http://www.robertbrain.com/bulcharts/)
- My contact details:  
web site above, or phone: 0438 355 910



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 **Summary & Wrap up**

## THE END

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 **Summary & Wrap up**

## THE END

## THANK YOU

(Backup slides now)

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