How Do I Determine My Stock Sell Points?

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Sample of Content:

I explain how to establish predetermined sell points and protect gains that you have in established positions. I use a recent buy that I placed as an example to help understand the concept. The article also briefly discusses trailing stops, market makers and post trade analysis.

Content:

This is an excellent question, if fact, itâ€™s the toughest question that I face with every stock that I own.

If I own a stock and it immediately goes down, this is the easiest decision I must make â€“ SELL and sell fast. I know how to cut my losses and have been doing it for years.

Yes, itâ€™s a blow to my self esteem but I always feel better when I see that particular stock several dollars lower a few weeks later. This is when I feel good about the insurance policy I have (sell rules) to protect my capital.

Take Accuride (ACW) for example: I recently purchased the stock on a â€œthree weeks tight patternâ€•, a pattern that is familiar with Oâ€™Neil and CANSLIM. I placed a market order as the stock started to move towards the breakout level of $15.00 and was filled at $14.99.

For a lower priced stock such as ACW, I give it about 8% breathing room which brings my sell point to $13.79. I will not place a physical sell stop because I donâ€™t want to be taken out of the position on false market maker moves. I reevaluate my position every night and decide if I need to sell â€œat the marketâ€• the next morning if it is below $13.79 or nearing the sell point that I established. Last week, the stock fell to $14.11 intraday giving most investors a scare but managed to close up at $15.18. This is the exact reason why I keep mental stops instead of physical stops. I only place physical stops when I will be away from a computer for an extended period of time or if my gains are sufficient and I want to protect them at a specific number, then I donâ€™t care if the stop is triggered intraday.

I will not change my mental sell stop of $13.79 until ACW gains at least 20% from my buy point. If that time arrives, I will move my sell stop about 12% below the current levels. In this case, the numbers would read like this: ACW would be up 20% near $18 and my trailing mental stop would be $15.84. If the stock approaches this area or violates the number, I will sell â€œat the marketâ€• the following morning. Remember, circumstances play a big role in each decision. If outside events are influencing the stock, I must take that into consideration and base my decision on the additional information.

If ACW starts to use a moving average as support, my mental sell stop will always be slightly below the moving average, again giving it room to breathe. If any of my stocks gain 50%, I start to place a physical stop about 10%-12% below the current levels to protect the gains.

Finally, if I have not been sold out of a stock but I start to see the stock act in different ways than it was while up-trending, I will sell immediately (examples can be a climax run, slicing a major moving average, breaking a strong trend-line or possibly a string of weaker earnings reports). Use discretion and develop a feel for what works best for you.

If Accuride (ACW) tanks today and I am forced to sell even though I only purchased the stock in the past week, I will not allow it to hurt my emotional balance and I will move on to the next opportunity because I know investing is about percentages and NOT about being right on every trade.

<u>Below are some basic sell rules that I follow:</u>

Sell all stocks that fall 7-10% below your purchase price. Donâ€™t ever allow a 10% loss double into a 20% loss because of stubbornness or the emotion of hope (hoping the stock will rebound). It is perfectly fine if the stock is sold out for a 7% loss and then it rebounds and you feel you would like to take another position in this stock.

If you feel something is wrong with your stock and the action looks odd but you are only down a few percent, sell anyway, why take a chance, especially in a bad market environment. This is the only form of insurance in the stock market.

When a stock has been is a solid up-trend and then it starts to move sideways, this is referred to as churning. This can be the first signal to the end of the run. This may serve as the perfect time to lock in your profits and watch from the sideline, remember, you can always get back in.

Learn to sell into strength you can never go wrong by selling into strength before the stock peaks. No one and I mean NO ONE gets out at the top and if they do, they were lucky. No one and I mean NO ONE goes broke by taking a profit after an extended run or up-trend! Donâ€™t allow the emotion of GREED to steer your ship, take profits when necessary, donâ€™t get greedy.

Stop Loss, Trailing Stops and Market Makers:

Many investors try to lock in gains or prevent losses with a predetermined stop loss or trailing stop loss. This is an excellent tool but has become an easy target for market makers and program traders to manipulate.

For example: You buy XYZ stock at $50 and enter an automatic stop loss at $45 to protect your portfolio from extensive losses.

Market makers can see this entered stop loss and play the market in order to wipe out your shares and pick them up at cheaper prices. They can bid down the price to $44.50 or so and grab your shares and then bid up the price back to the $50 range â€“ all in one day. I have personally seen intraday manipulation of stocks being bid down, only to close for minor losses or slight gains. Accuride is a great example from last Thursday as it was down over 6% intraday and then closed up over 1%.

A trailing stop is a feature that allows the investor to determine a % point at which their stock is sold.

Example: If you buy 100 shares of a stock at $50, you can select a percentage at which your stock is sold, this percentage follows the stock up in price. So if you bought 100 shares of XYZ at $50 and put your percentage at 8%, your stock will be sold at $46...BUT, if your stock advances to $60, then you will have a new sell point at $55.20 (8% below the high of $60). In other words, your sell stop trails or follows your stock without you having to cancel out and resetting a new sell stop each time your stock goes up in price.

How do you protect your portfolio without letting market makers trip your stop loss for a premature exit?

I use a predetermined mental stop loss that is only implemented after the market is closed for the day. I take a look at each holding and determine if it should be sold at the market or intraday the next trading day. I predetermined my sell level when I bought the stock, so most emotions are already taken out of the equation.

If you invest in quality stocks with solid fundamentals and technicals, there is no need to constantly worry about huge losses in the matter of one or two days, barring a tragic event within that particular company.

Finally, Post Trade Analysis:

Post trade analysis could possibly be the most important key to unlocking your investment potential. Every investor must analyze their past trades. By analyzing your past trades, you can focus in on your mistakes and pinpoint the downfalls in your methods.

Ask yourself:

How many stocks have you bought in the past 12 months?
How many went up?
How many went down?
How long did you hold these stocks?
Why did the stock work?
Where did it go wrong?
Did the fundamentals breakdown?
Did the stock send key technical red flags before a major collapse?

Most investors skip post analysis and consider it a waste of time to look at the past. Many investors are scared to look at past trades they donâ€™t want to see the extent of the damage. An investor will never be able to take a step forward without looking over the past success and failures in their portfolio. In order to focus on weak areas in your investing methods, post analysis is the place to start. Post analysis with the aid of charts will show you if you bought too soon, sold too late, sold too early or bought the wrong stock all together. Print out a chart of all stocks that you sold and plot your key entry and exit points. Look for base building, accumulation, distribution or any other components that help shape your final decisions. Compare your stocks to sister stocks and see if similar patterns occurred. Did any sister stocks start to rise or fall before your stock? Post analysis is like looking in the mirror you have no where to hide and only the truth to seek.

After several post analysis sessions, you will notice similarities in your buying and selling patterns. Similar mistakes or successes will become apparent. Focus on both the good and the bad. This post analysis allows the educated investor to suck in their pride and take responsibility for their own actions.

This is the starting point to correcting mistakes and growing your strengths!

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Chris is the founder and president of MarketStockWatch.com, an internet community that teaches you how to invest your money with solid rules. We offer an extended no obligation monthly trial period starting immediately with two free weeks. We don't stop at just showing you our daily and weekly screens, we teach you how to make you own screens through education. Through our philosophy, you will be able to create your own methods and styles to become successful.

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