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TRADING F

Knowing when to sell is a complex business

TECHNICAL ANALYSIS
ROD MYER



OFTEN investors are interested in using the tools of technical analysis to give some indication of when to buy a particular stock. But selling to lock in profits or prevent major losses is an equally important part of the investment equation.

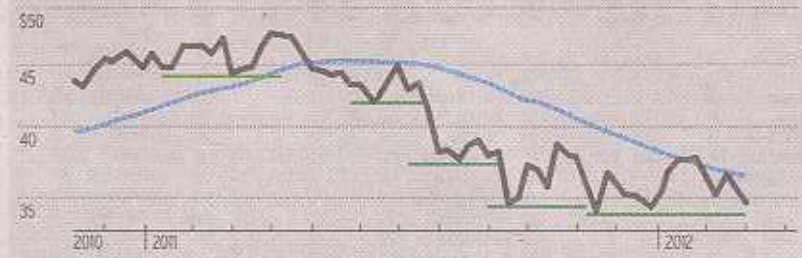
Indeed, many investors find sell decisions harder to make than buy decisions because of the psychology that is called into play. Selling out of a loss-making situation can be very difficult as it crystallises the loss and ends the hope that the stock might turn around. Likewise

dumping a profitable position ends the chance for further profit and generates regret if the stock continues to climb.

This week we will look at creating stop-loss positions with reference to BHP Billiton, for many years considered one of the bluest of the blue chips on the Australian market. It has been a proxy for the China growth story, rising from \$8.22 in June 2003 to a high of \$50 in May 2008. It was clobbered during the financial crisis but climbed back to \$47.74 in May last year.

This week's chart, provided by Robert Brain, a director of the Australian Technical Analysts Association, plots BHP's weekly share price from late 2010. The blue line on the

BHP TIME TO GO?



graph represents the 30-week simple moving average (SMA) and is vital in deciding where stop-loss points should be set. The SMA, Brain says, is a useful indicator of when we should get out of a stock.

Quite simply, when the SMA levels out and turns down, it is time to think about selling. For those

wanting further research on this issue, Brain recommends reading *Secrets for Profiting in Bull and Bear Markets* by Stan Weinstein.

The sell signal from a falling SMA is even stronger when the stock price chart falls below the SMA, as it did with BHP from May last year. And just look how prescient Weinstein's theory has been

in this case. The BHP share price has fallen 20 per cent since last May.

That still leaves investors having to decide when to get out. To demonstrate this, Brain has drawn short horizontal lines on the chart under troughs. If the stock falls below these support lines in the future, the down trend can be considered to still be in place and investors can use that as a sell trigger. Using this strategy would have got investors out of BHP at higher levels than it has traded over the past 10 months.

This column is not financial advice. Those wishing to invest should seek professional counsel and do some homework.

The writer has BHP shares.

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