



# Stop Loss!

## Seven ways to determine a Stop position



Presentation to  
Australian BullCharts User Group  
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Prepared by Robert Brain for Australian BullCharts User Group  
More information in **Brainy's ShMarket Toolbox**  
[www.robertbrain.com](http://www.robertbrain.com)

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## DISCLAIMER

Any information presented or discussed as a part of this presentation is only opinion, and is not advice, and should not be acted upon. The particular financial requirements of the viewer have not been taken into consideration. One should always seek professional advice before entering into financial or other arrangements.

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## Agenda

1. Introduction
2. What is a "Stop Loss"?
3. Why use a Stop Loss?
4. How to implement a Stop Loss
5. When to do it?
6. Different types?
7. Stop Loss – details – 7+ ways!!

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## Introduction

- The traders' / investors' objectives:
  - grow the capital
  - protect capital
  - earn income from dividends
  - preserve profits.
- Can a “Stop Loss” help do this?

(brief discussion)

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## What is a “Stop Loss”?

- Exactly what is a “Stop Loss”?
  - “A pre-determined monetary amount at which to sell the stock, that if put into effect will limit any loss.”
- Would it have prevented a loss in the stock on the next slide?

(brief discussion)

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## What is a “Stop Loss”?



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## Why use a “Stop Loss”?

- What might happen if we don't use a “Stop Loss”?

(brief discussion)

- Possible catastrophic loss of funds

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## How to implement it?

1. Conditional Sell Order placed into the market
2. Manually sell at market open next day
3. Manually sell at next opportunity

Pros and cons of these?

- Do they work?
  - Watch out for price spikes! and gaps!
- (brief discussion)

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## When to determine it?

- Before we buy or after?
- At purchase time?
- Revise periodically?

(brief discussion)

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## Different Types

- "Initial Stop Loss" set at purchase time.



Don't place an order without a pre-determined stop position!

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## Different Types

- "Trailing Stop" is revised periodically.



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## Different Types

- "Time Stop" - in case of poor performance.



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## Stop Loss — CRITERIA

- There is no strict or rigid criteria for setting a Stop Loss value.
- It depends on several things:
  - Your trading horizon (short/long term)
  - Volatility level of stock
  - Your amount of risk
  - (other?)

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## Stop Loss — Techniques

- **Initial stop**  
Determine using a sound technique. Could be arbitrary; but this is dangerous!
- **Time stop**  
Could be set, say, 3 days after in case of a failure to succeed within an initial time period
- **Support level** (*below* support!)
- **Sloping trend line**
- **Money management stop** (eg. 2%)
- **Parabolic SAR**
- **Count Back Line (CBL)**
- **Volatility stop** (eg. multiple of ATR, eg. Wilson ATR Trailing)
- **Moving Ave stop** (eg. 30 week EMA, or cross-over)
- **ActTrade Range+ indicator lower deviation**
- **Minimum Rate of Return stop – ROAR**
- **Technical stop** (eg. support line)

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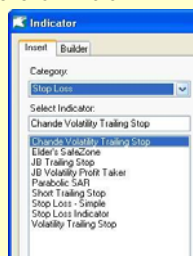
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## Stop Loss — Techniques BullCharts indicators

BullCharts includes the Stop Loss "indicators" shown here (with "Category" = "Stop Loss").

Plus some others:

- Wilson ATR trailing stop
- ATR initial stop
- Bear Range initial stop
- Mean Close initial stop
- Relative % initial stop
- Wilson Relative % trailing stop
- others?



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## Stop Loss — Techniques

Money management stop (eg. 2%)

- 2% of what?  
total trading capital?  
or of "this trade"?  
other?

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## Stop Loss — Techniques

Failure of a Support Line



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## Stop Loss — Techniques

Parabolic SAR

- An indicator that sets trailing price stops for long or short positions.
  - Also referred to as the "stop-and-reversal indicator".
  - If the trend is up, buy when the indicator moves below the price.
  - If the trend is down, sell when the indicator moves above the price.
- source: [www.stockcharts.com](http://www.stockcharts.com)



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## Stop Loss — Techniques

Alan Hull –  
ROAR, and  
ActVest  
Range+



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## Stop Loss — Techniques

Others ?

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## Stop Loss — Additional Comment

- Whatever stop method you choose, there are potentially thousands of others who will choose the same price position.
- This means a potential spike down will take you out.
- How can you counter this?
- Set the stop a fraction **below** the calculated amount.

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## Summary

- Stop Loss - can be very useful (in fact, invaluable) to help preserve capital and profits.
- Variety of ways to determine.

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## MORE INFORMATION

- More information is included in Brainy's eNewsletter Articles on **Share Trading** and **Technical Analysis**:
  - ST-4500 "Stop Loss – Why is it important?"
  - TA-5020 "Stop Loss Position – basics"
  - TA-5100 "Indicators and Tools for Stops"
- These are in Brainy's ShMarket Toolbox web site [www.robertbrain.com](http://www.robertbrain.com) (for eNewsletter subscribers and Toolbox members only)  
[Click here for subject list...](http://www.robertbrain.com/members-area/articles.html)  
<http://www.robertbrain.com/members-area/articles.html>



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Further comments  
or  
observations?

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The End

(thank you)

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