Technical Analysis

Exit strategies

Introduction

In this day and age it can be seen that the old traditional buy-and-hold investment method is no longer a reliable wealth-builder. Many traders and investors in the stock market don't give much serious thought to how to exit investment positions. A good investing/trading strategy will have a clear method for managing both the entry into a position, and the exit. And depending on possible circumstances, there might need to be multiple exit strategies to cater for different situations.

The eBook Article **ST-6115, *"Strategies for entry and exit"***, provides an introduction to this subject, while this Article in Brainy's series on Technical Analysis (number TA-6030) talks through the considerations and possibilities for exit — there are many to choose from.

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The ideal strategy

The ideal investing / trading strategy will comprise a number of elements including:

- The condition(s) that trigger our action to enter. This might be a single condition (observed on a price chart, or from an indicator, or based on some computational analysis), or it might be a multiple-condition scenario such as a chart pattern set-up situation followed by a trigger.
- The possible condition(s) that will trigger our exit action. To be a complete and prudent approach, this will probably be more than one condition.
- Some money and risk management rules to do with the portion of total capital to be invested in any one position, or the portion to "risk" in any one position.

Reasons to exit

There are a number of reasons why we might exit a position. They include:-

- The price has fallen, and our investment decision on this occasion was not a good one, so we sell based on our pre-determined *Stop Loss* approach.
- The price has risen much higher than our *Initial Stop Loss* level, so we have raised the stop loss to be a *Trailing Stop Loss*, so that if the price then falls we will be able to sell and capture profits and preserve the remaining capital. The *Stop Loss* approach is covered in other eBook Articles.
- The money is needed elsewhere, so we liquidate in order to redeploy the cash.
- The investment value has risen significantly, making it somewhat sensible to liquidate some or all of the position, perhaps to re-balance the allocation of our funds or to reduce the risks of this particular investment — this is all based on a pre-defined *exit strategy.*

The *Stop Loss* options and methods for exit are not covered in this Article; as we focus on the other, hopefully profitable, exit strategies.

Avoid haphazard exits

It is important to avoid exiting positions in a random or haphazard manner. The intended exit method needs to be included in the written investing/trading strategy, and ought to have been tested to ensure a degree of success, and to gain confidence with the intended approach. Almost every possible reason to exit is predictable, so there should be no surprises, and no ad hoc actions.

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