nabtrade webinar

WHEN TO SELL TO IMPROVE RETURNS AND MINIMISE RISK

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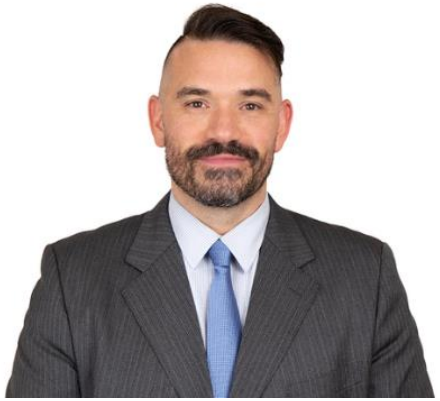
WHEN TO SELL TO IMPROVE RETURNS AND MINIMISE RISK



CHRIS CONWAY

Lead Fund Manager
Marcus Today

GEMMA DALE

Director, SMSF and Investor Behaviour
nabtrade

What we'll discuss

- What you should consider when crafting your own exit strategy
- Chris' methodology for placing stop losses
- Signs to watch out for if you're thinking of selling
- How to use trading indicators on the nabtrade platform; and
- A technical read of 5 ASX listed stocks and application of Chris' stop loss strategy

45 minutes

Q&A Session

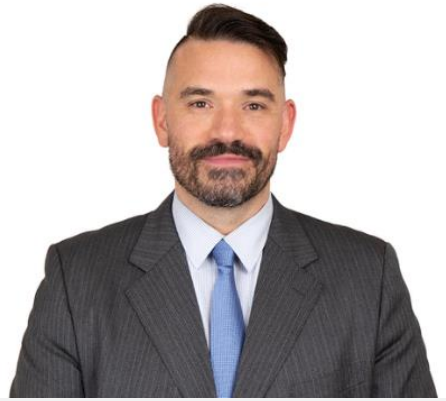
15 minutes

Don't forget, you can submit questions at any time.

WHEN TO SELL TO IMPROVE RETURNS AND MINIMISE RISK

Introducing Chris:

- Chair of the Marcus Today Investment Committee (MTIC)
- Lead Fund Manager for the Marcus Today SMA
- Writes the 'Technical Trades' section of the newsletter
- Market commentator – ausbiz, The Age, The Australian, Herald Sun
- 2018 Stock Picker of the Year, as judged by the Australian Stockbrokers Foundation. 3rd in 2015, 2nd in 2016.
- Has been investing and working in the industry for 20 years



CHRIS CONWAY
Lead Fund Manager
Marcus Today

HOW TO SET A STOP LOSS AND 3MA TEMPLATE

With Chris Conway

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RECAP

What is 3MA?

- The strategy uses 3 EMA's (exponential moving averages) which need to be in a certain configuration for a stock to pass the 'test'.

- That configuration is as follows;

  - The shorter-term EMAs are crossed higher; the 8-period EMA (red) is crossed above the 21-period EMA (blue).
  - Both the shorter-term EMAs are above the longer-term, 125-period EMA filter (green), which is also pointing higher.
  - The price action sits above all of the EMAs

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Technique

- The use/placement of stop losses is a way to define (and somewhat control) risk
- There is only one thing you can control in the market and that is how much you are willing to risk
- There are many ways to define risk and there are many ways to set stop losses, I'm going to show you mine
- The worry… is that once you see how I do it, you will wonder what all the fuss is about
- I encourage everyone to develop their own stop loss strategy… in fact, I insist on it. Anyone can buy stocks. Consistent, long-term returns are earned by those people who know how to manage risk
- Q&A at the end of the presentation

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Do stop losses work?

- Yes… **if applied consistently**
- A research paper published in 2008 by Kathryn M. Kaminski and Andrew W. Lo (*When Do Stop-Loss Rules Stop Losses?*) considered the application of a simple stop loss strategy applied to an arbitrary portfolio strategy (i.e. buying an index) in the US market over the period from 1950 to 2004.
- Over the whole 54-year period, the study found that this **simple stop loss strategy provided higher returns while at the same time limiting losses substantially**.
- It also found that the stop-out periods were relatively evenly spread over the 54-year period they tested, showing that the stop loss was not just triggered by a small number of large market crashes.

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Where do I place my stop loss?

- Another research paper, written in 2009 by Bergsveinn Snorrason and Garib Yusupov (*Performance of stop loss rules vs. buy and hold strategy*) found that the ideal stop placement was 15% away from the original entry price.
- The pair tested stop loss levels from 5% to 55%.
- The highest average quarterly return was achieved at the **15% stop loss level** and the highest cumulative results at the 10% stop loss level, closely followed by the 15% stop loss level.

How do I manage my stop loss?

- The same research paper found that **trailing stop losses were more effective than traditional stop losses**, as they achieved a higher cumulative return
- For those unfamiliar, a trailing stop loss dictates that when the stock price moves higher, the stop loss is moved higher along with it rather than simply leaving it in the original position
- The highest average quarterly return was obtained with a 20% trailing stop loss level. **The highest cumulative return was achieved with a 15% trailing stop loss**
- The research also showed that the only stop loss level that did worse than a buy-and-hold portfolio (with a negative avg. return of 0.12% and a cum return of -8.14%) was from a 5% trailing stop loss – i.e. the stop loss was too tight

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Nuts and bolts

THE GENESIS OF A STRATEGY

- Don’t set stop-losses too far away
- Don’t set stop-losses too tight
- Trailing stop-losses are better than traditional stop-losses

THE TRIANGULATION

- 15% is the common denominator between traditional and trailing stop-losses, so look to set a stop-loss around 15% away from the initial entry price and then trail the stop-loss higher
- ATR multiple – 2-3x
- Key support/resistance levels
- MANAGEMENT: Do the movement every day
- STOPS NEVER GO DOWN, **ONLY UP!**

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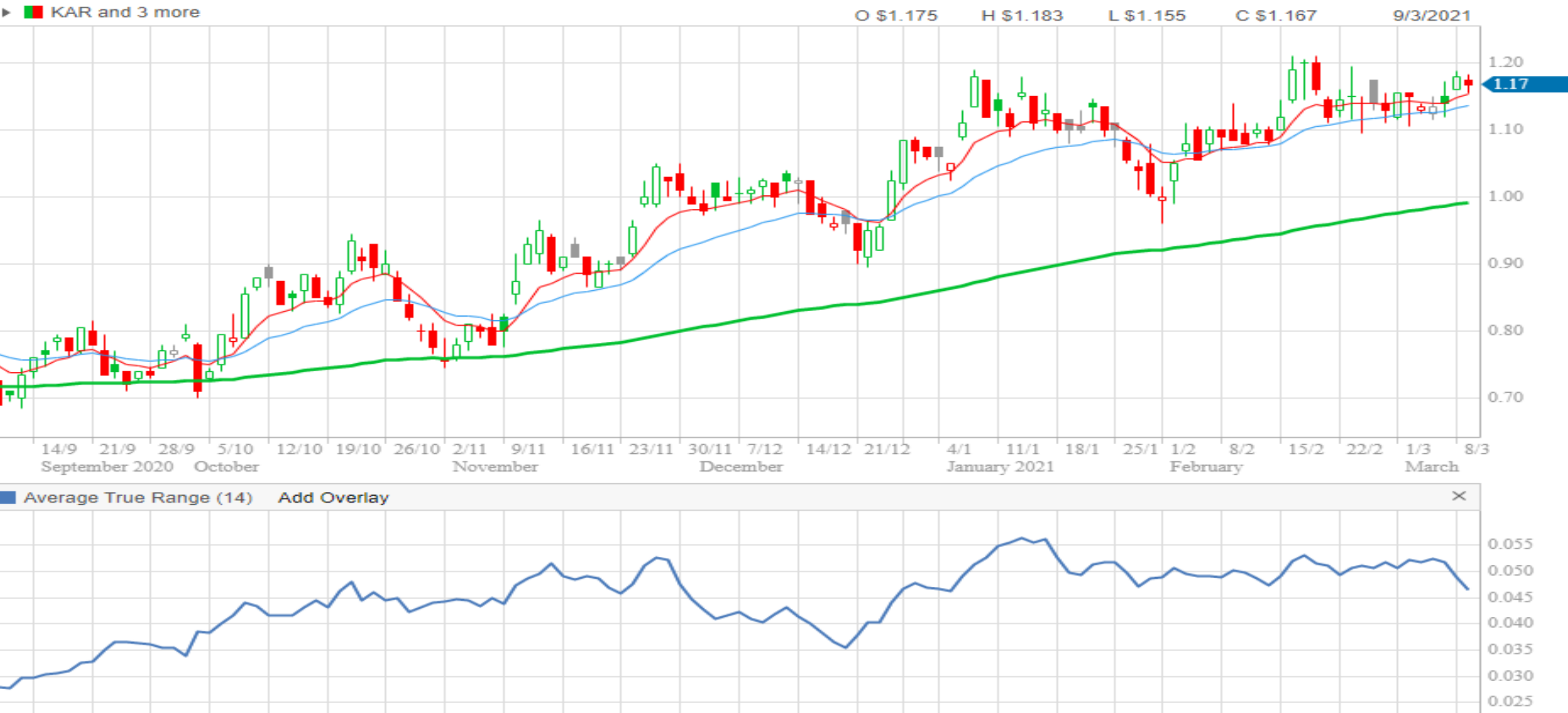
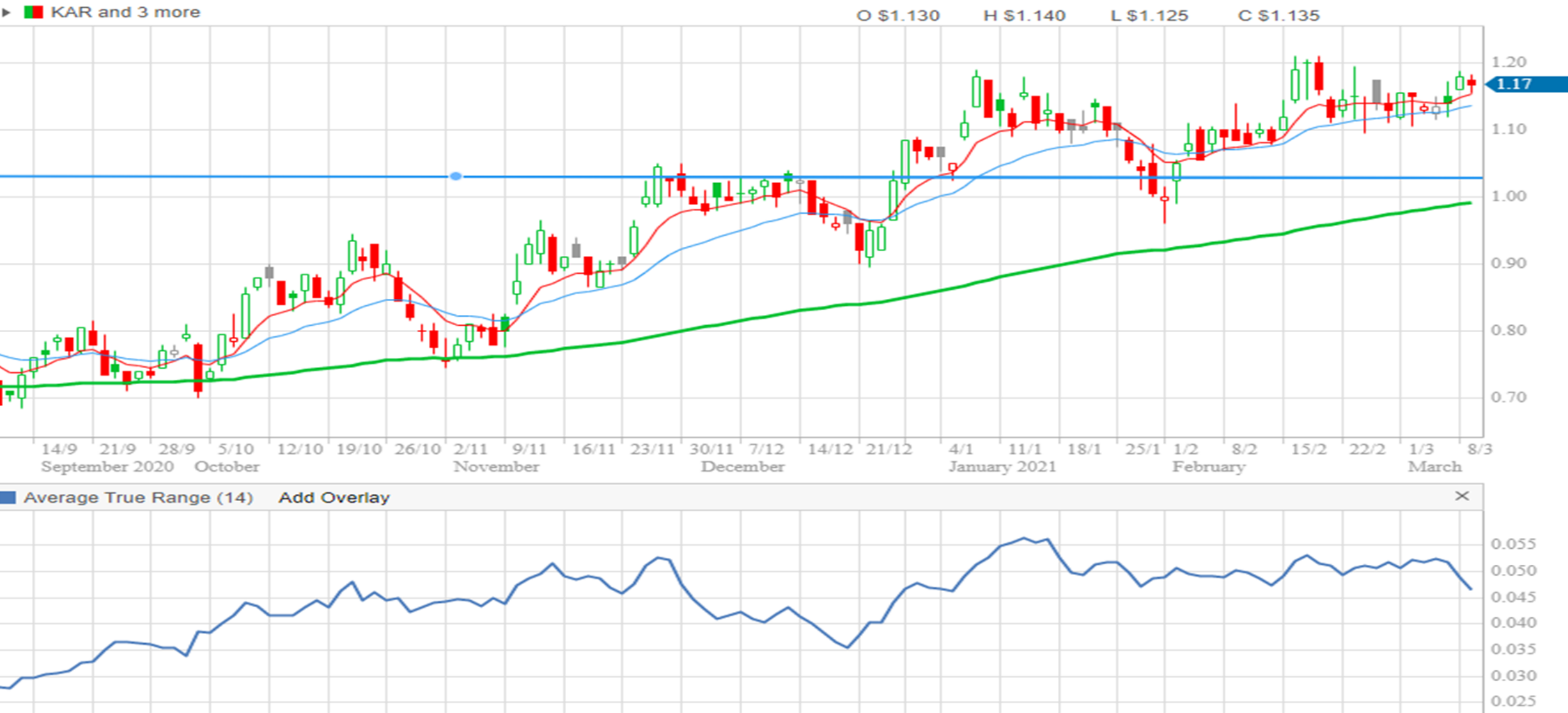
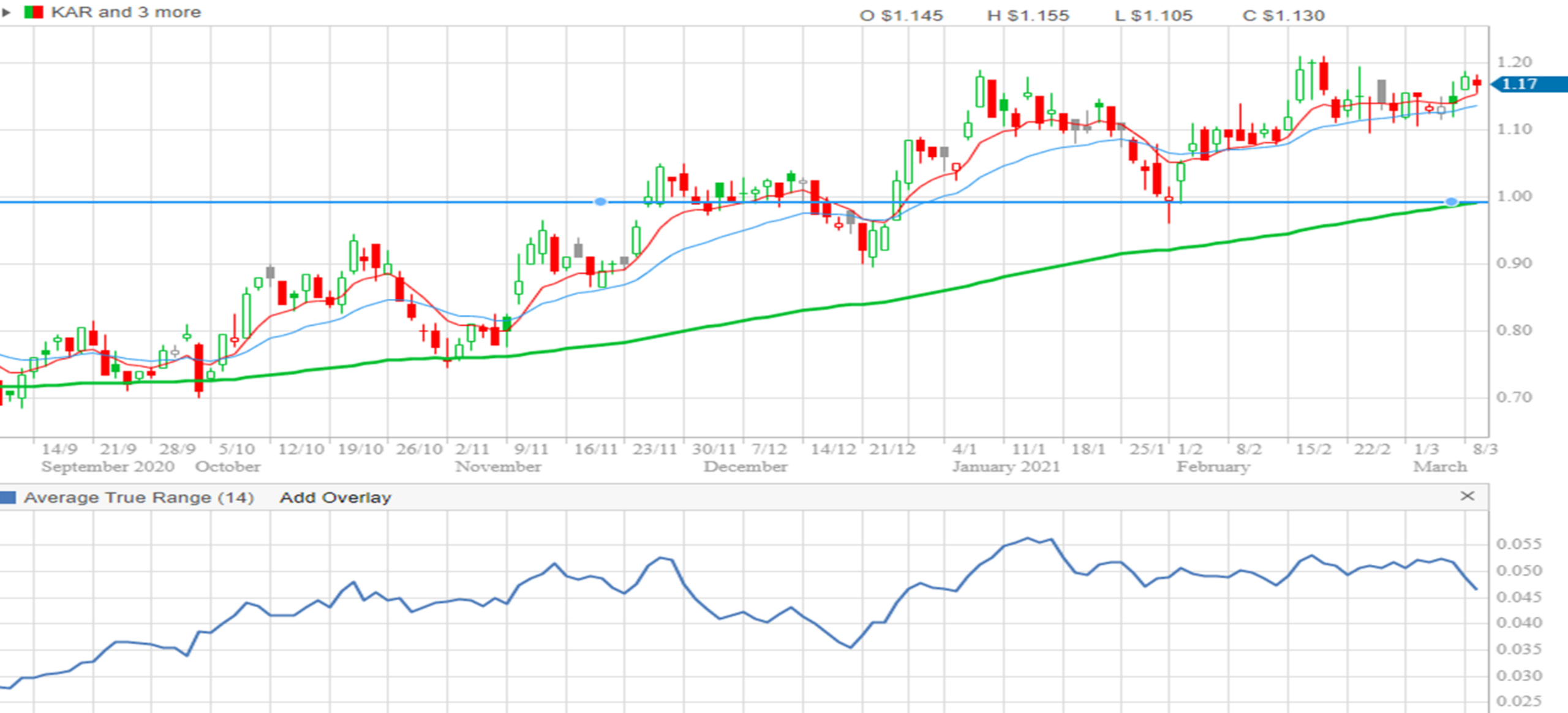
KAROON GAS (KAR) – ATR 4.7c



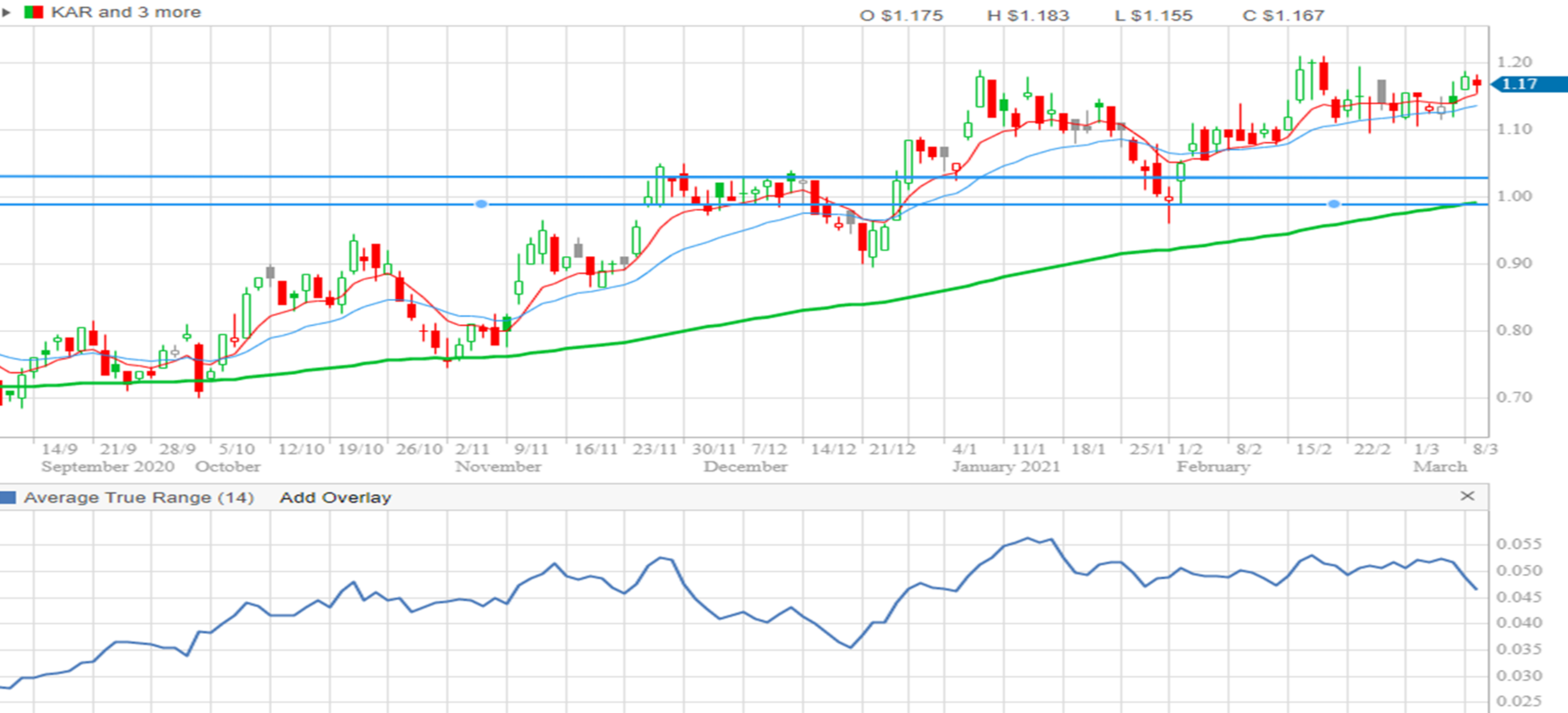
KAROON GAS (KAR) – 3 x ATR (4.7c) STOP LOSS
STOP = 117c – (3 x 4.7c) = 117c – 14.1c = 103c



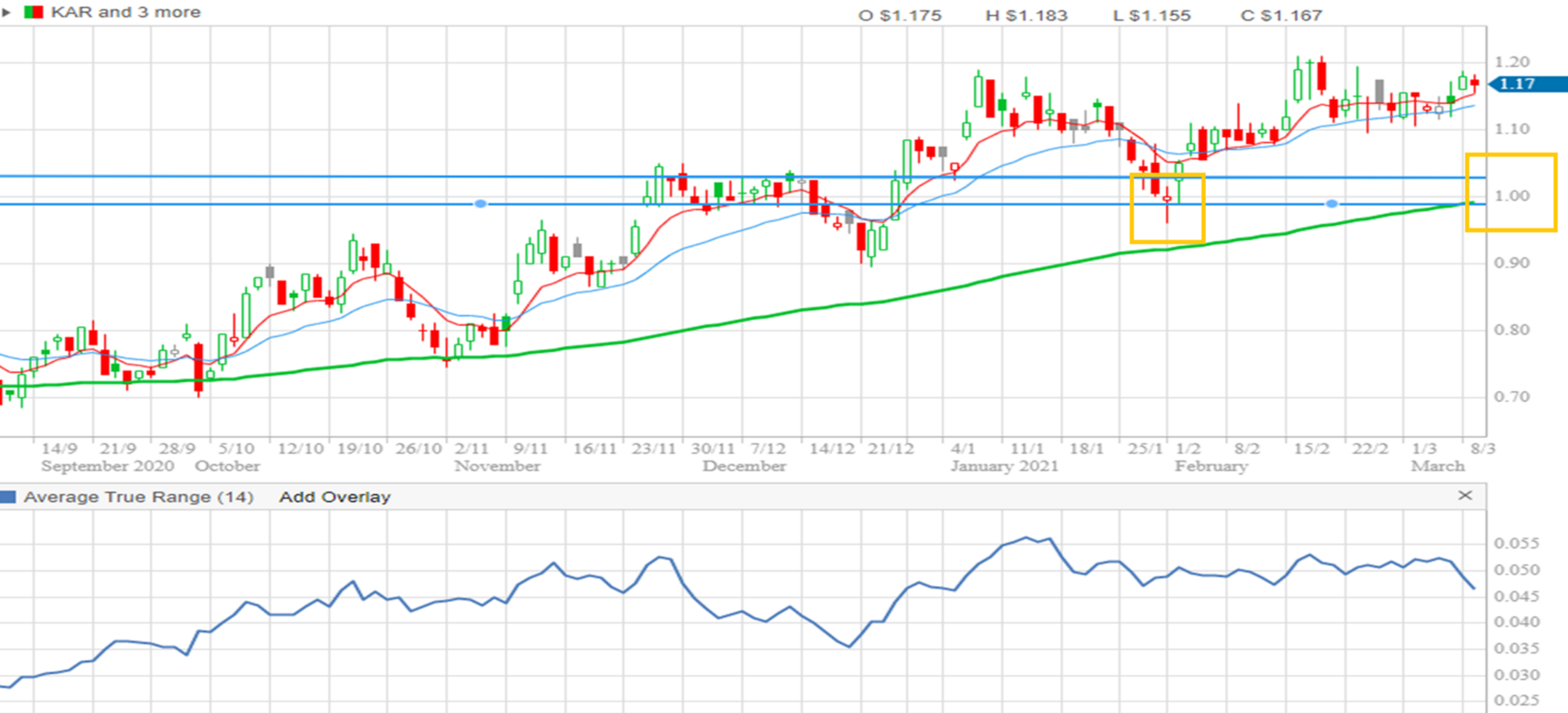
KAROON GAS (KAR) – 15% STOP LOSS
117c x 0.15 = 17.55c. 117c – 18c = 99c



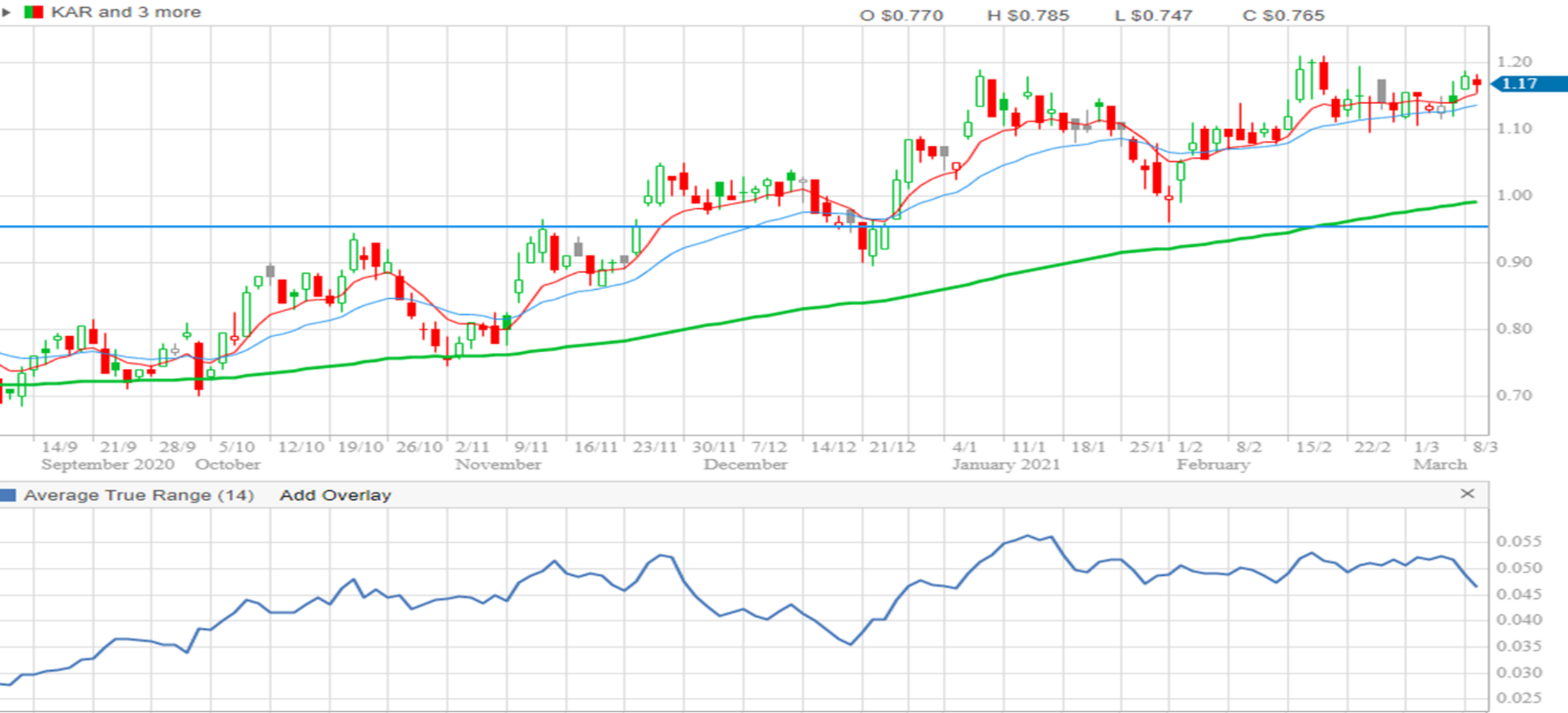
KAROON GAS (KAR) – STOP ZONE (BOTH 3 x ATR and 15%)



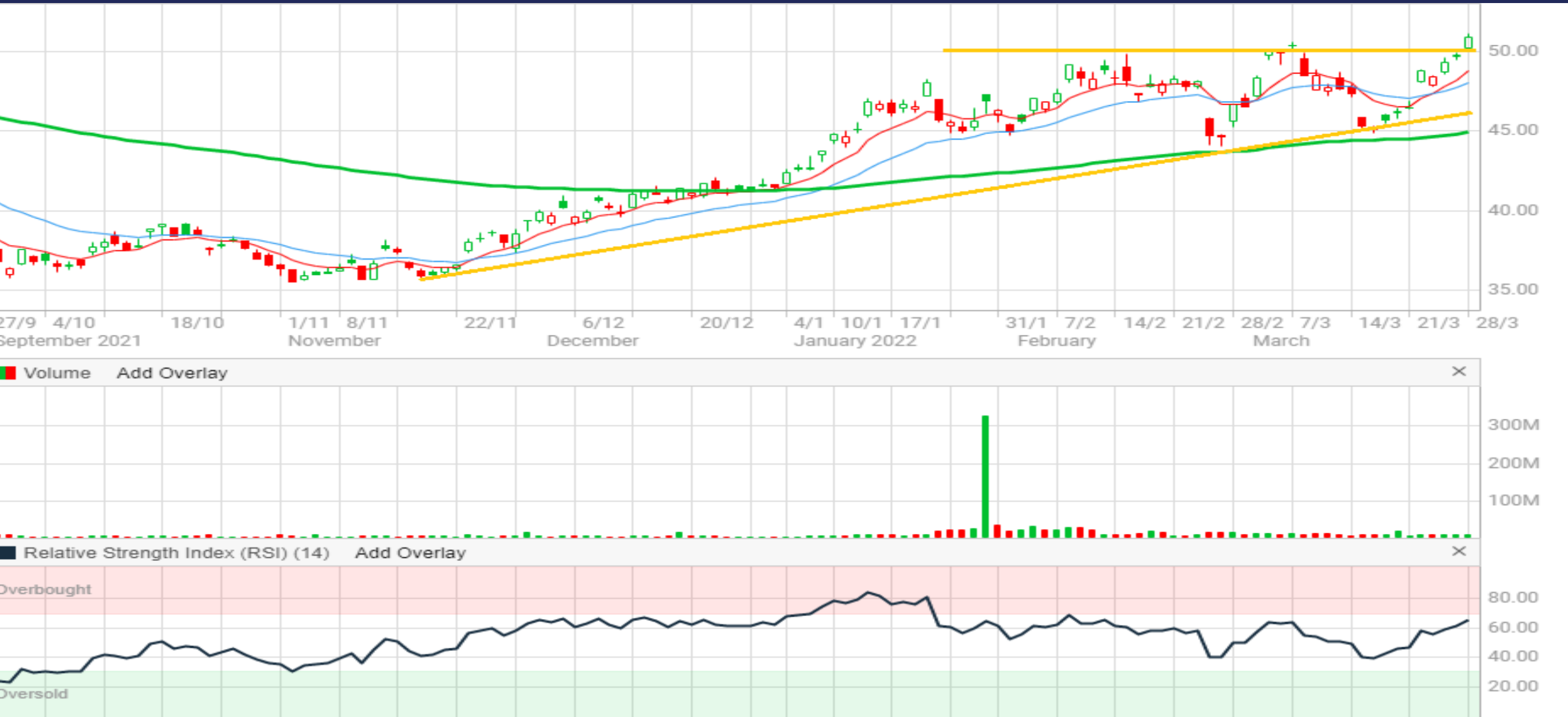
KAROON GAS (KAR) – STOP ZONE
WHAT ARE THE PROBLEMS?



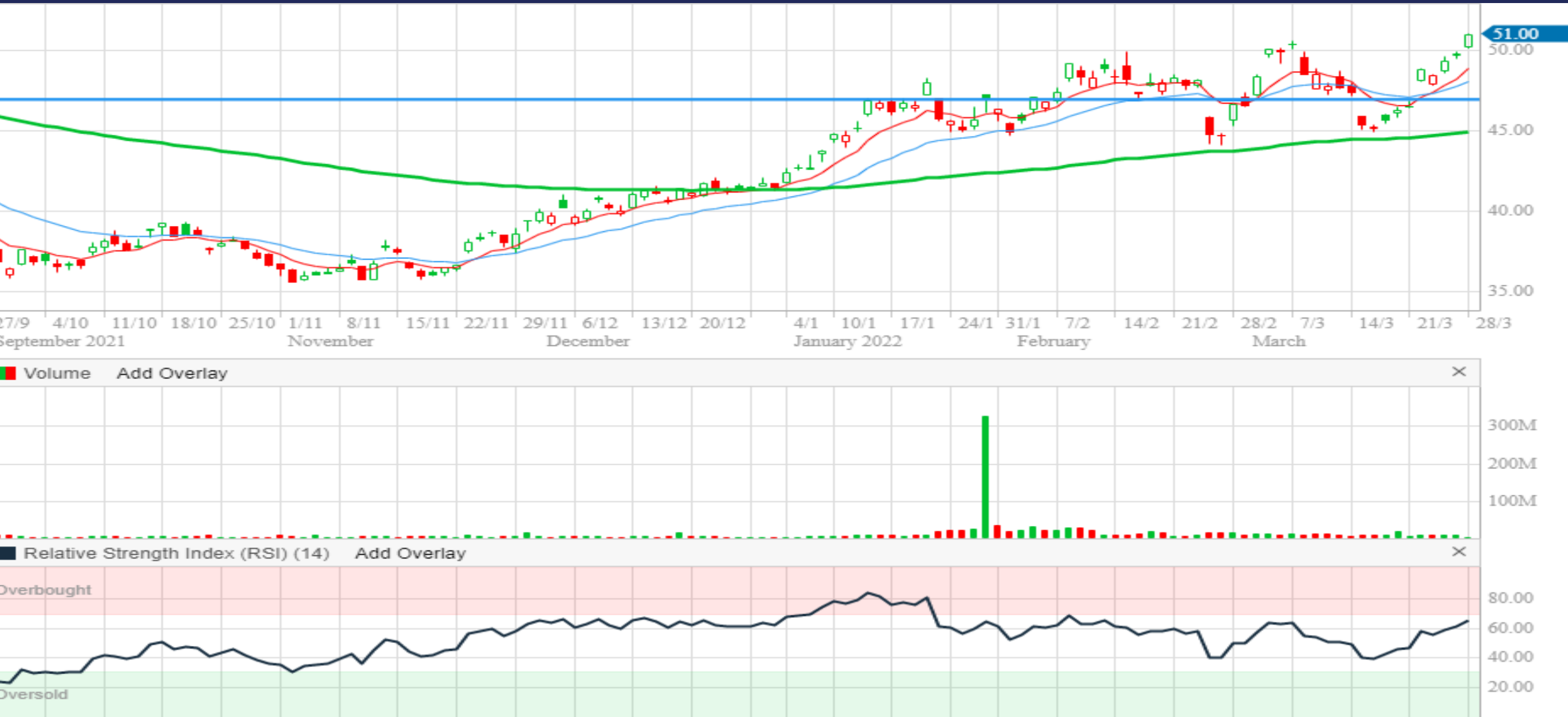
KAROON GAS (KAR) – THE END RESULT: STOP AT 95c (23%)



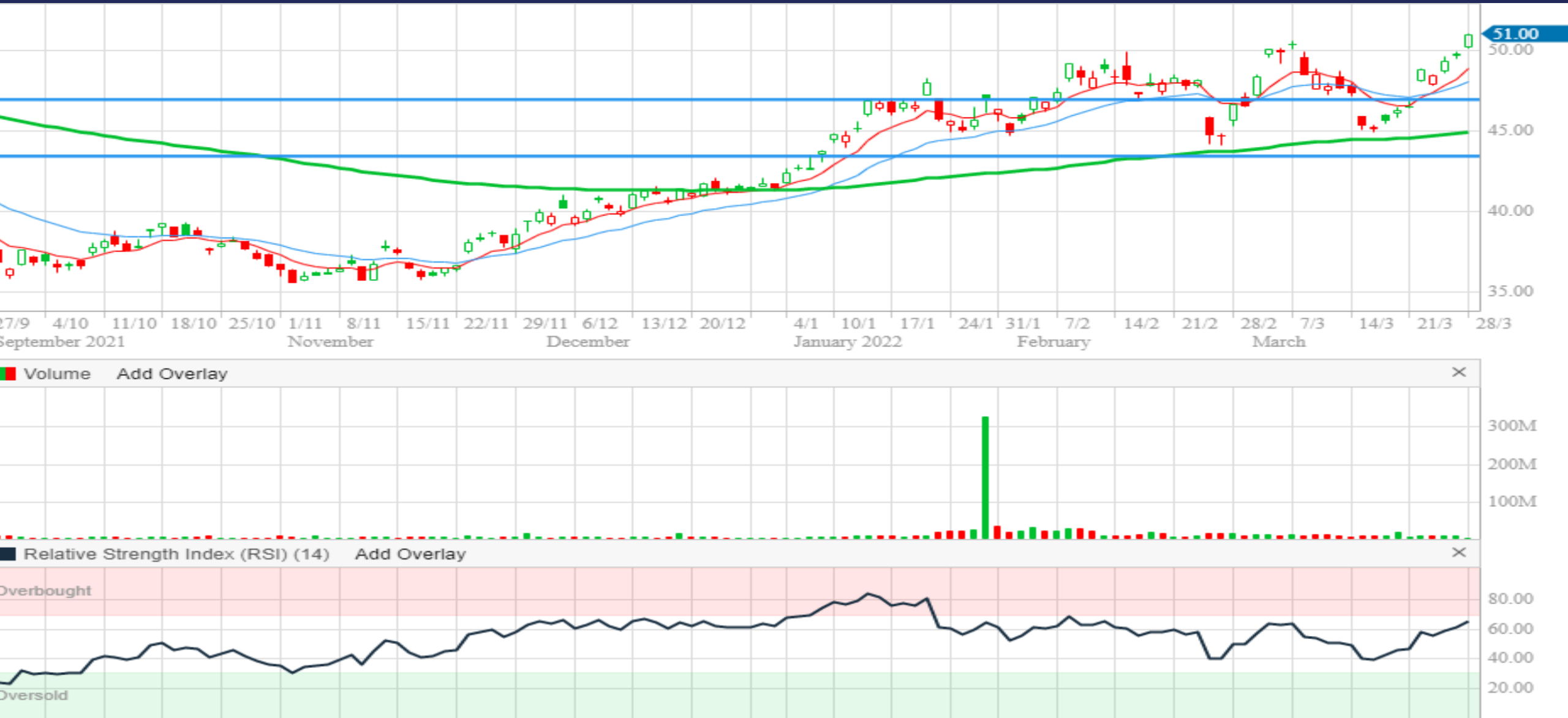
BHP GROUP (BHP) – ATR 126.8c



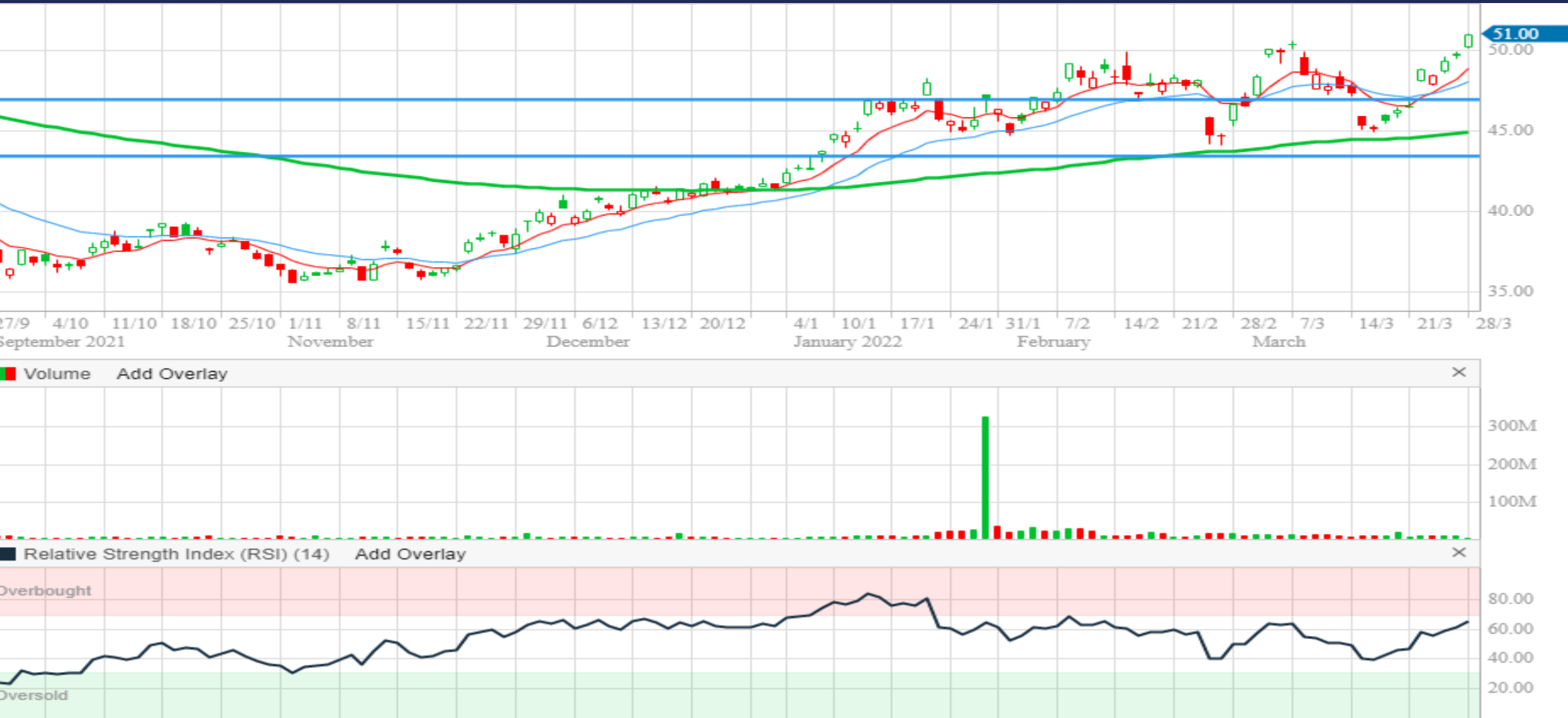
BHP GROUP (BHP) – 3 x ATR (126.8c) STOP LOSS
STOP = 5100c – (3 x 126.8c) = 5100c – 380c = 4720c



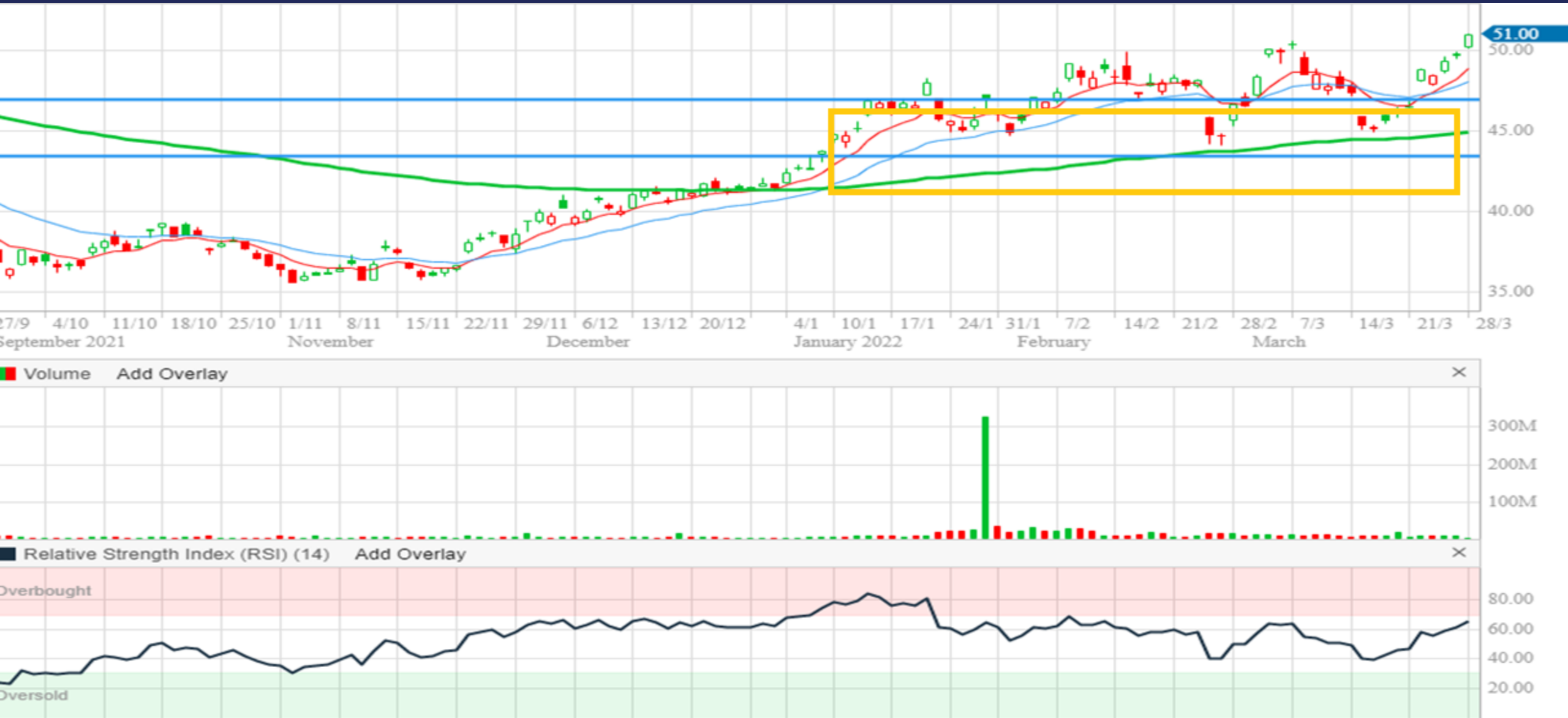
BHP GROUP (BHP) – 15% STOP LOSS
5100c x 0.15 = 765c. 5100c – 765c = 4335c



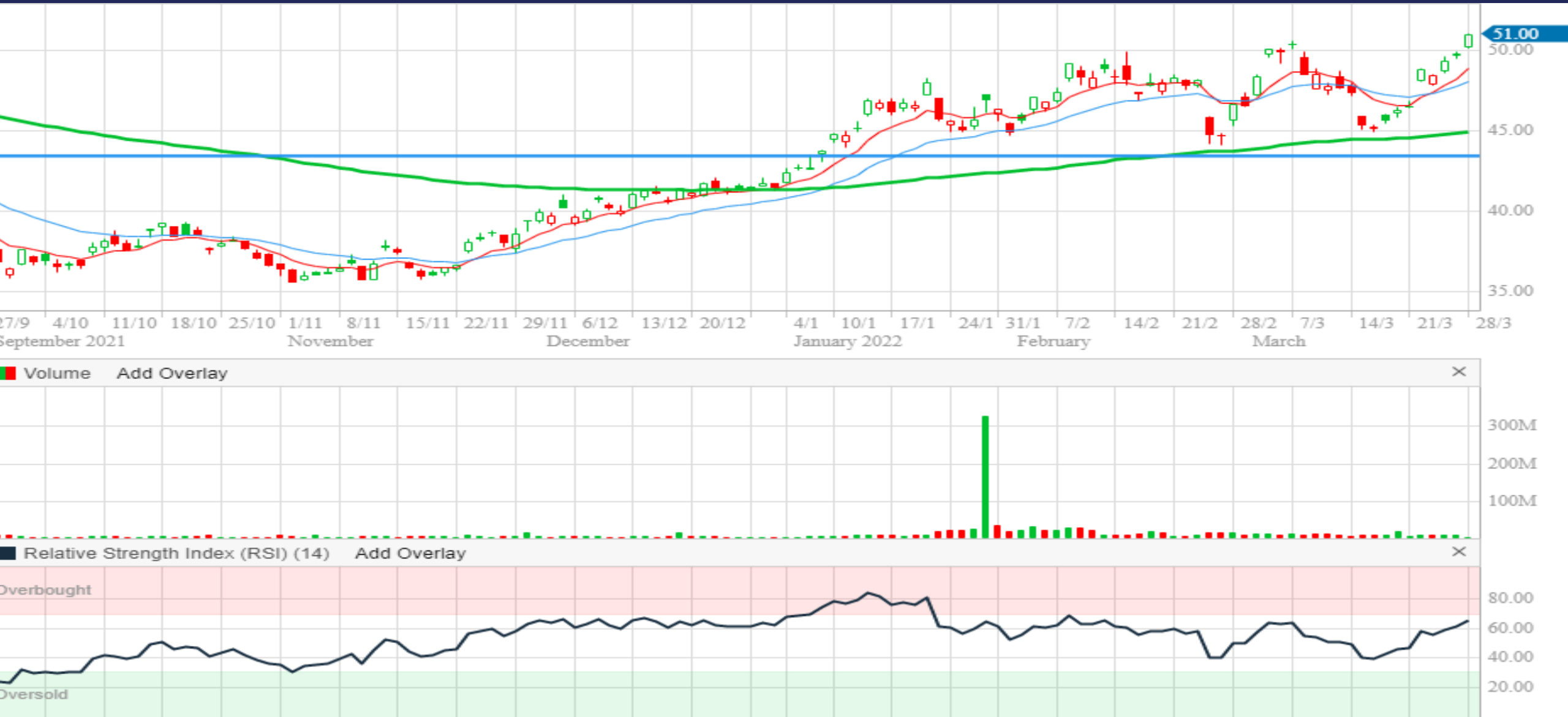
BHP GROUP (BHP) – STOP ZONE (BOTH 3 x ATR and 15%)



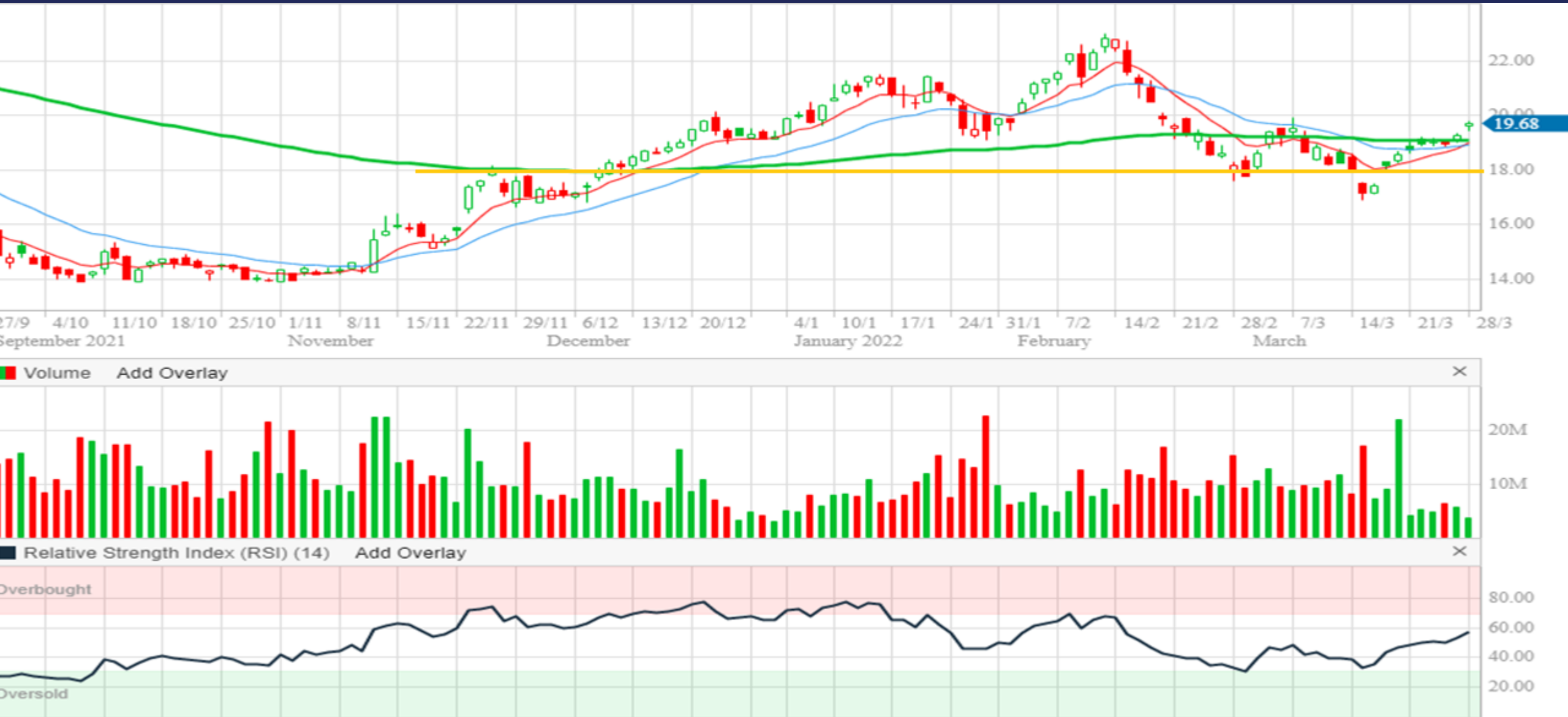
BHP GROUP(BHP) – STOP ZONE
WHAT ARE THE PROBLEMS?



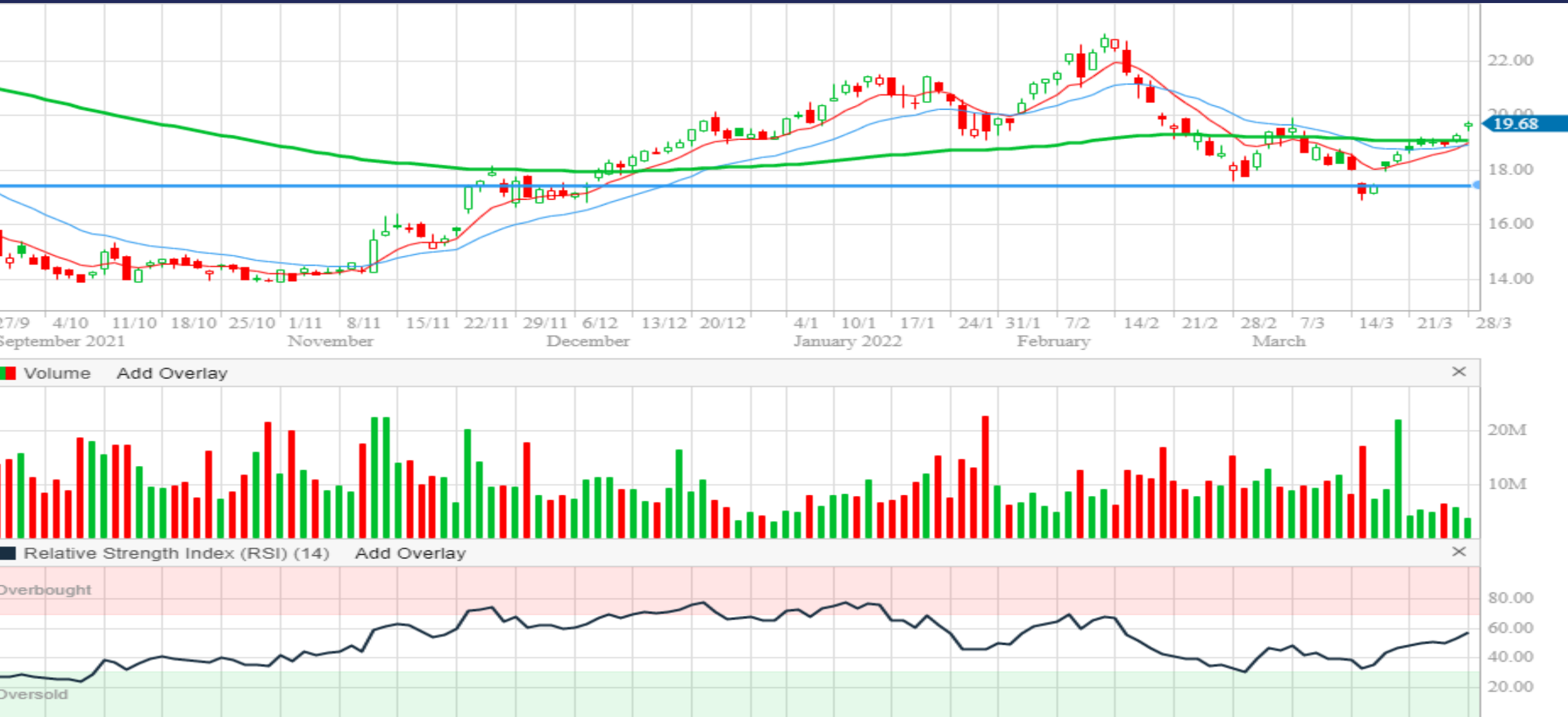
BHP GROUP (BHP) – THE END RESULT: STOP AT 4335c



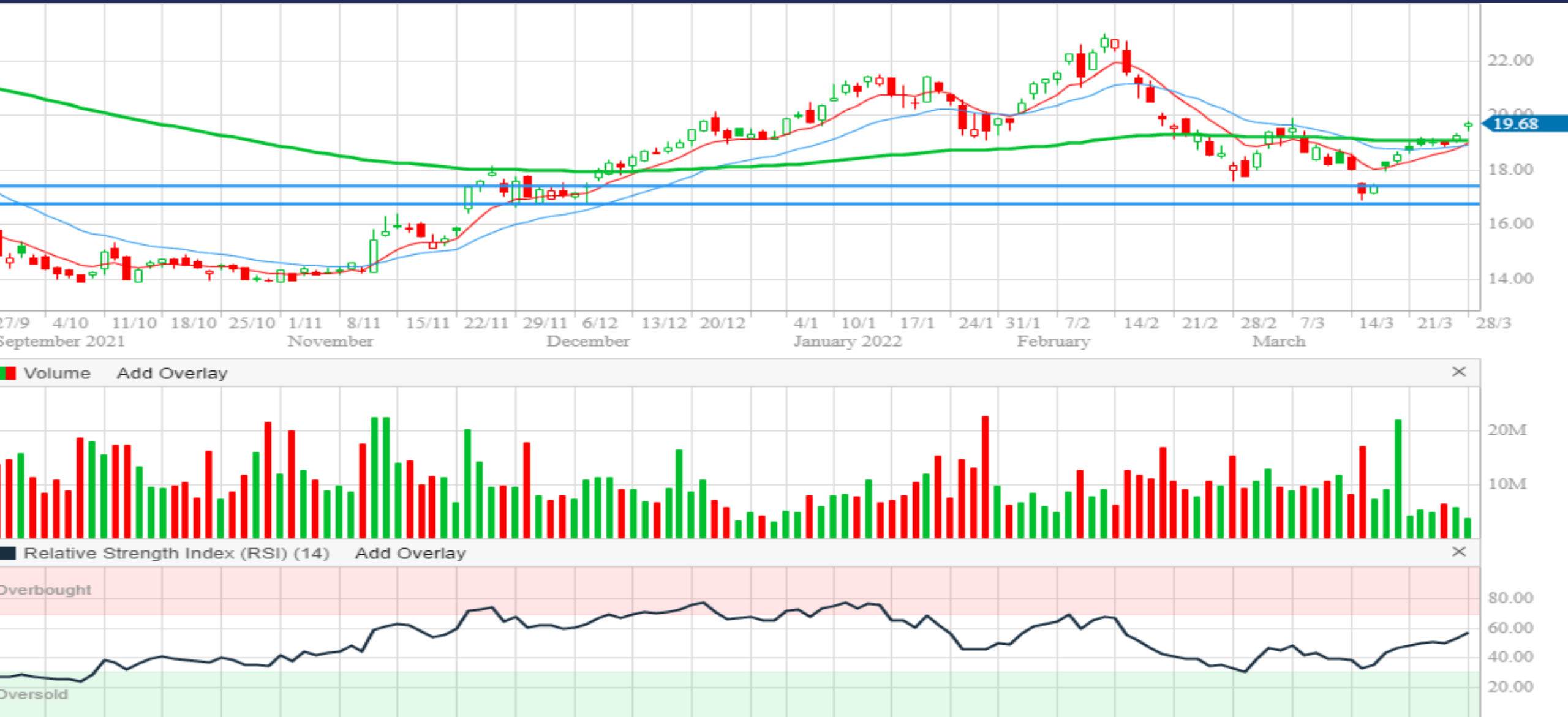
FORTESCUE METALS GROUP (FMG) – ATR 78.1c



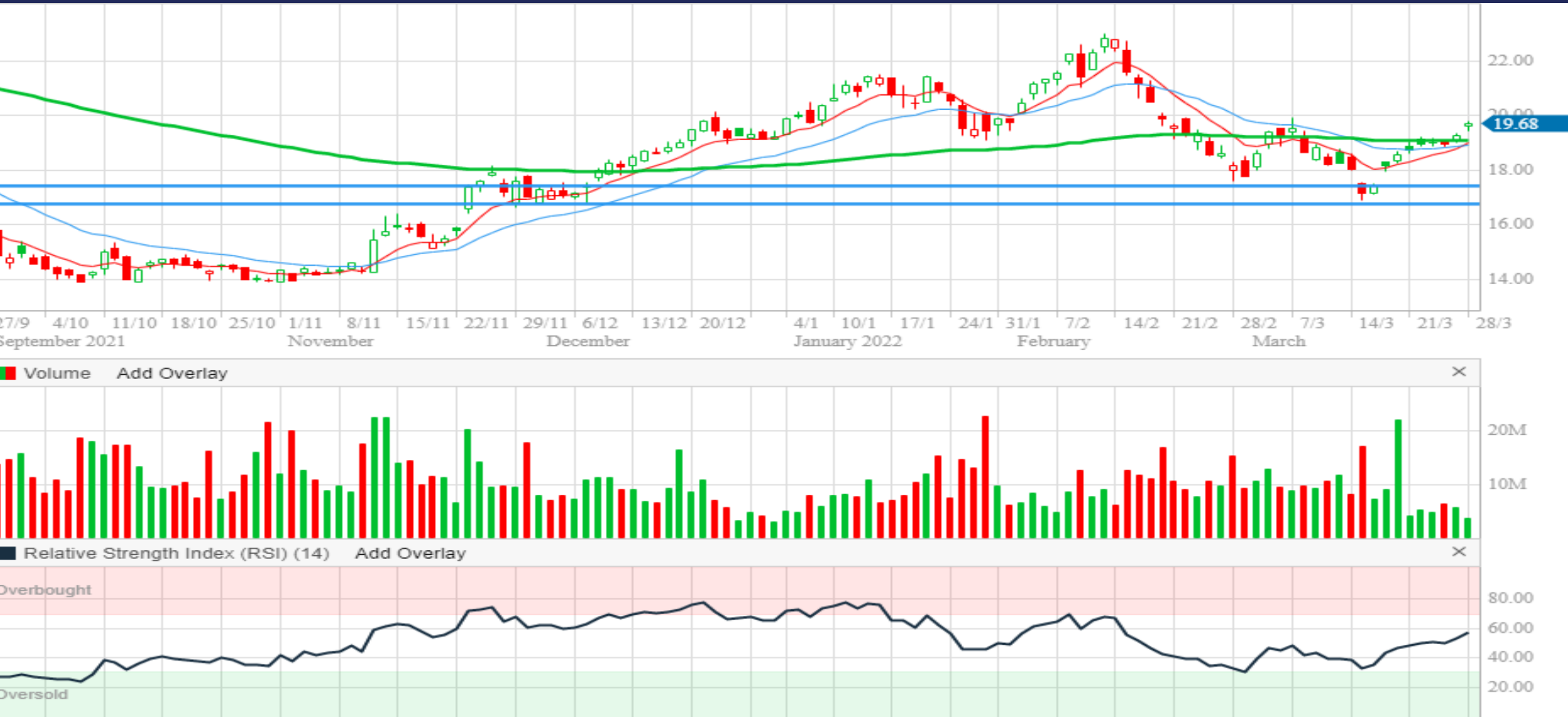
FORTESCUE (FMG) – 3 x ATR (78.1c) STOP LOSS
STOP = 1968c – (3 x 78c) = 1968c – 234c = 1734c



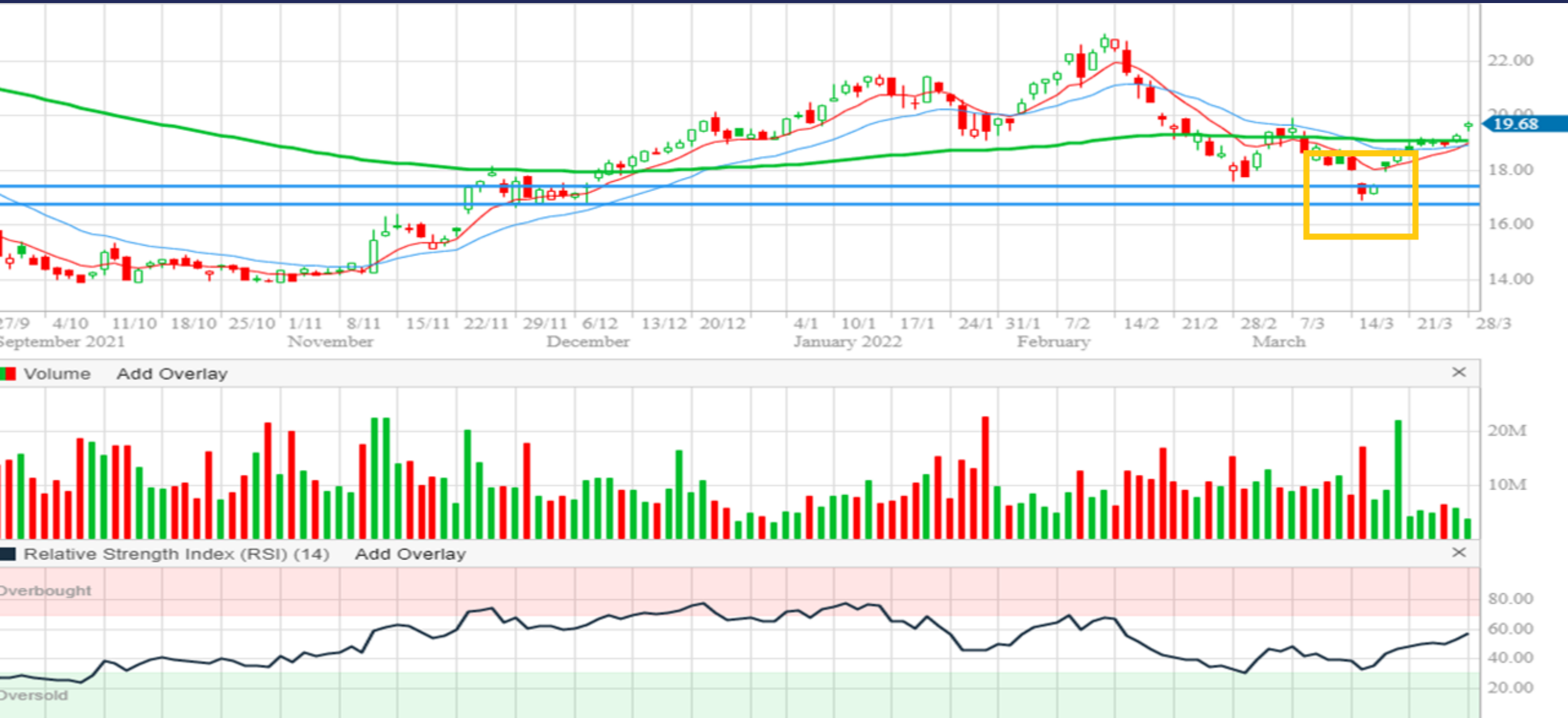
FORTESCUE (FMG) – 15% STOP LOSS
1968c x 0.15 = 295c. 1968c – 295c = 1673c



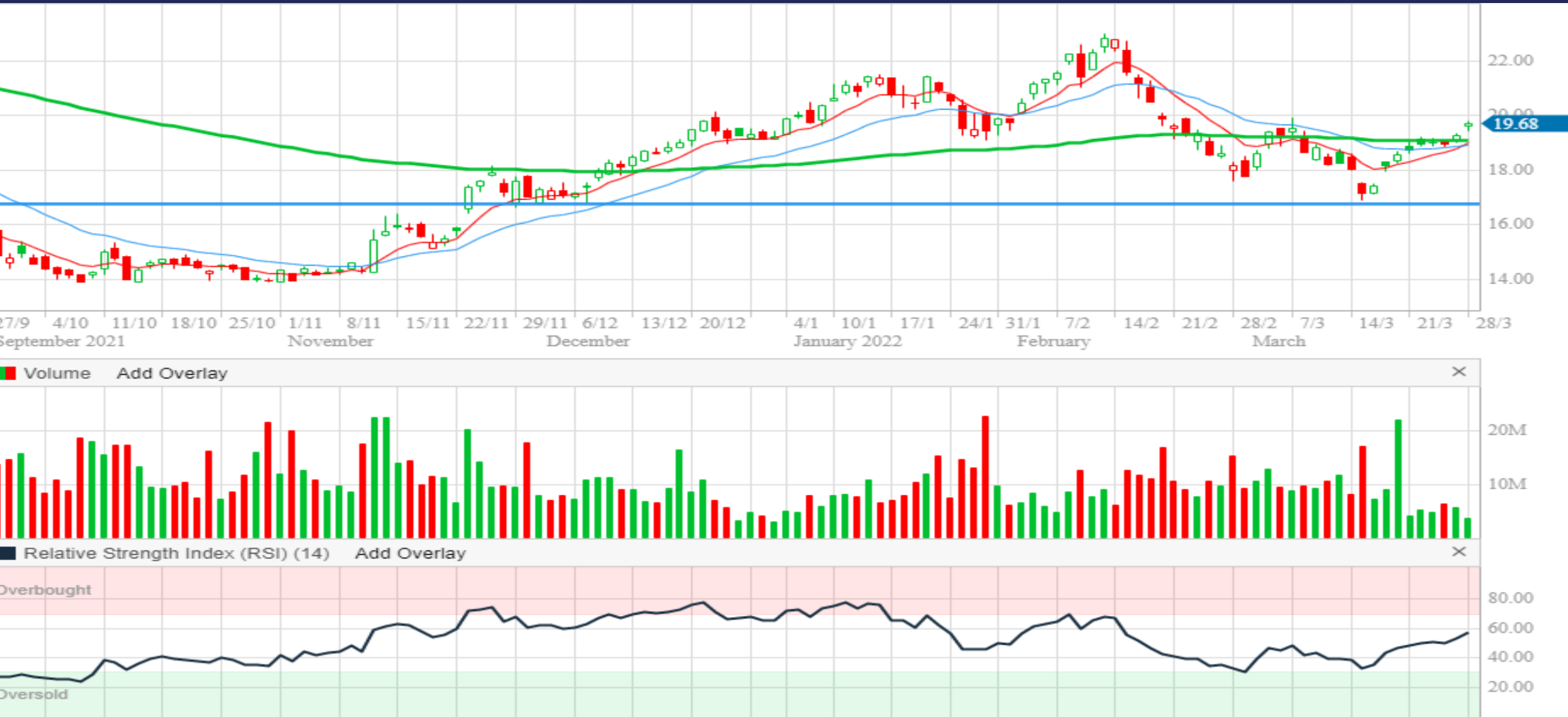
FORTESCUE (FMG) – STOP ZONE (BOTH 3 x ATR and 15%)



FORTESCUE (FMG) – STOP ZONE
WHAT ARE THE PROBLEMS?



FORTESCUE (FMG) – THE END RESULT: STOP AT 1673c



NATIONAL AUSTRALIA BANK (NAB) – ATR 61.7c

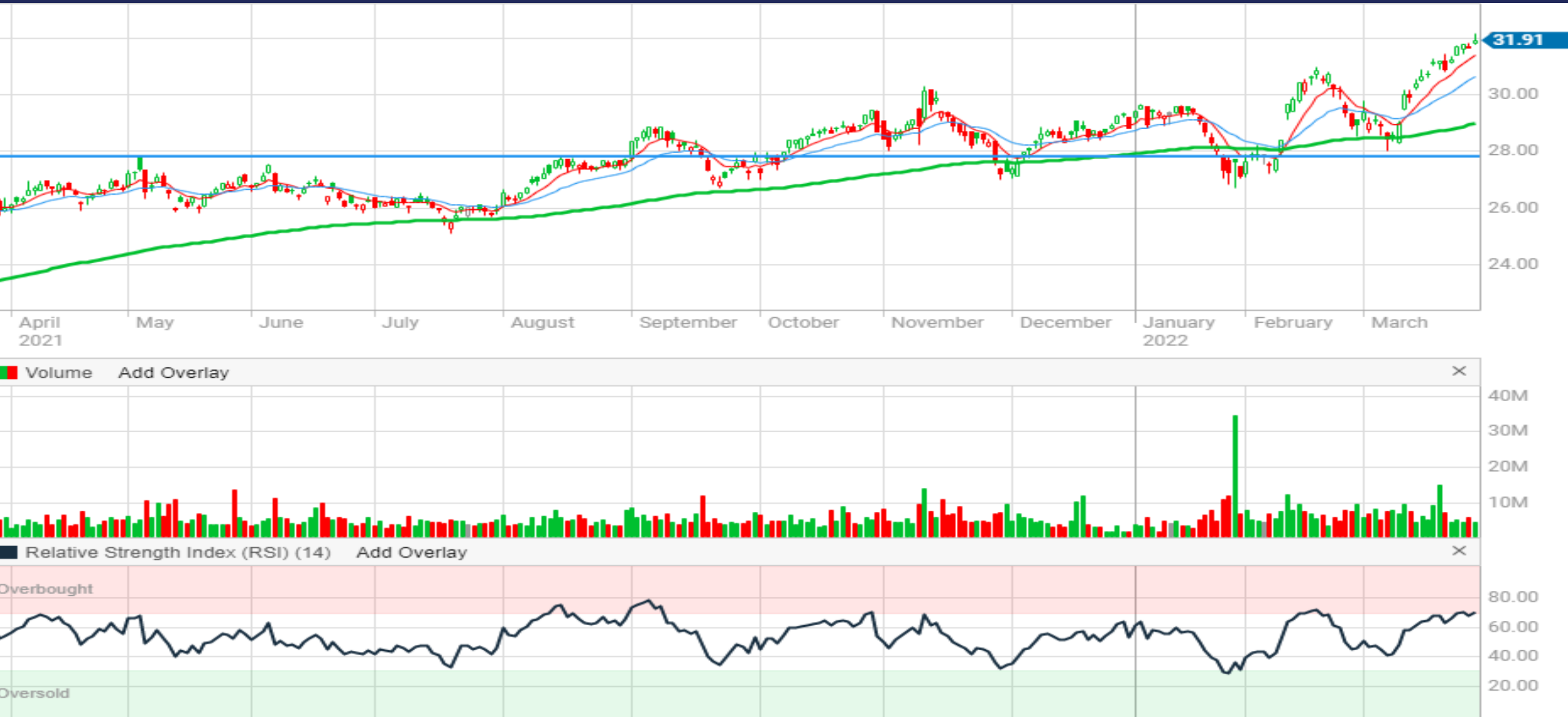
NAB (NAB) – 3 x ATR (61.7c) STOP LOSS
STOP = 3191c – (3x61.7c) = 3191c – 185c = 3006c

NAB (NAB) – 15% STOP LOSS
3191c x 0.15 = 295c. 3191c – 479c = 2712c

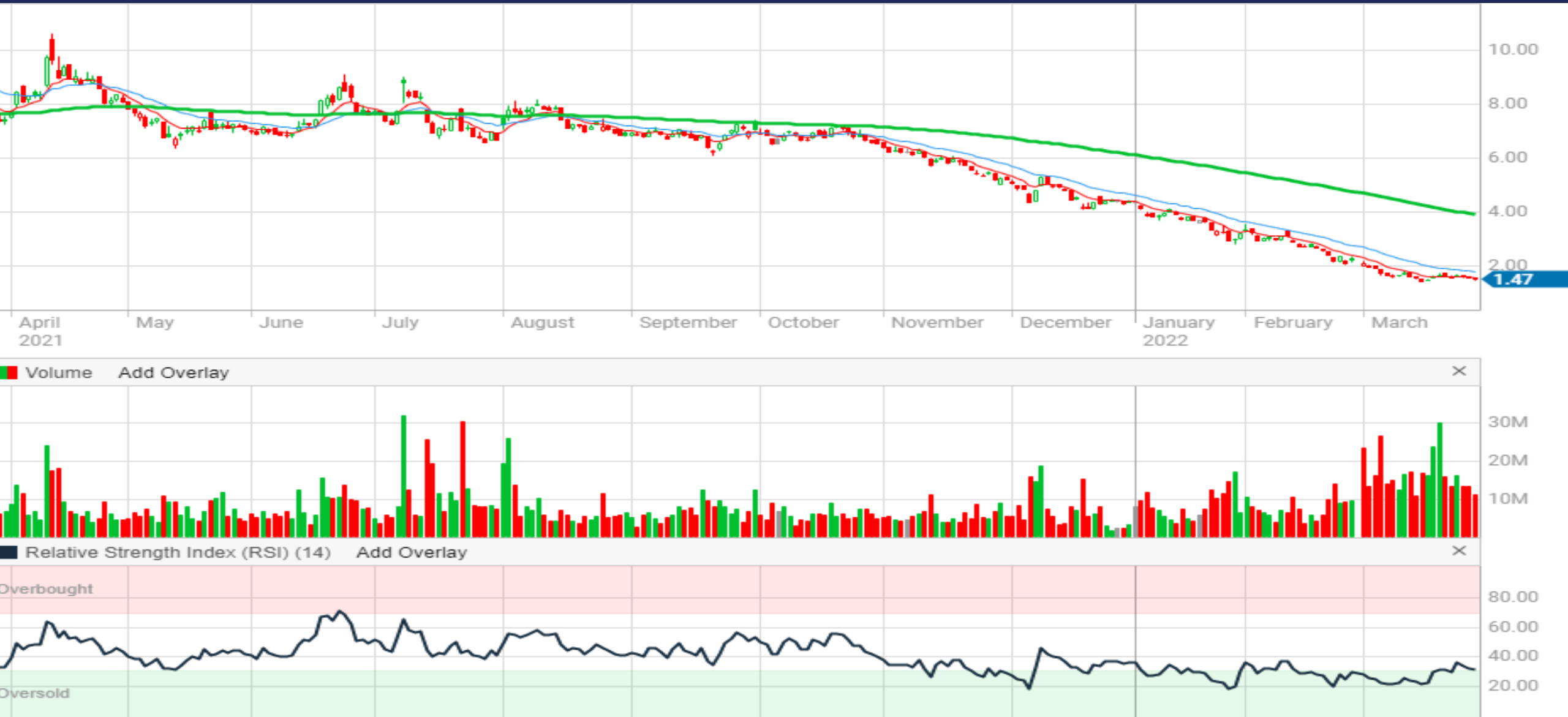
NATIONAL AUST. BANK (NAB) – STOP ZONE (BOTH 3 x ATR and 15%)

NATIONAL AUST. BANK (NAB)– STOP ZONE WHAT ARE THE PROBLEMS?

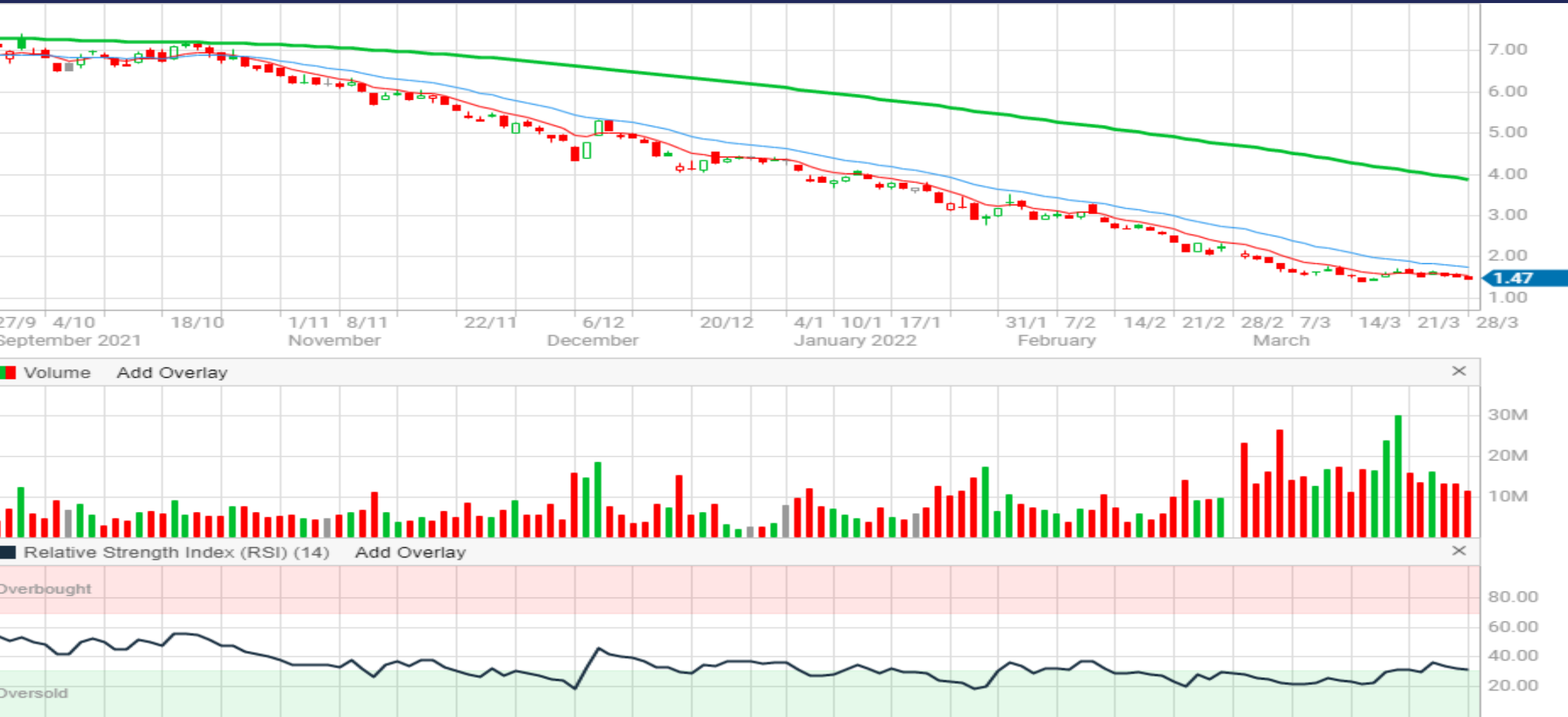
NATIONAL AUST. BANK (NAB) – THE END RESULT: STOP AT 2785c



Z1P CO LIMITED (Z1P) – 1-year chart

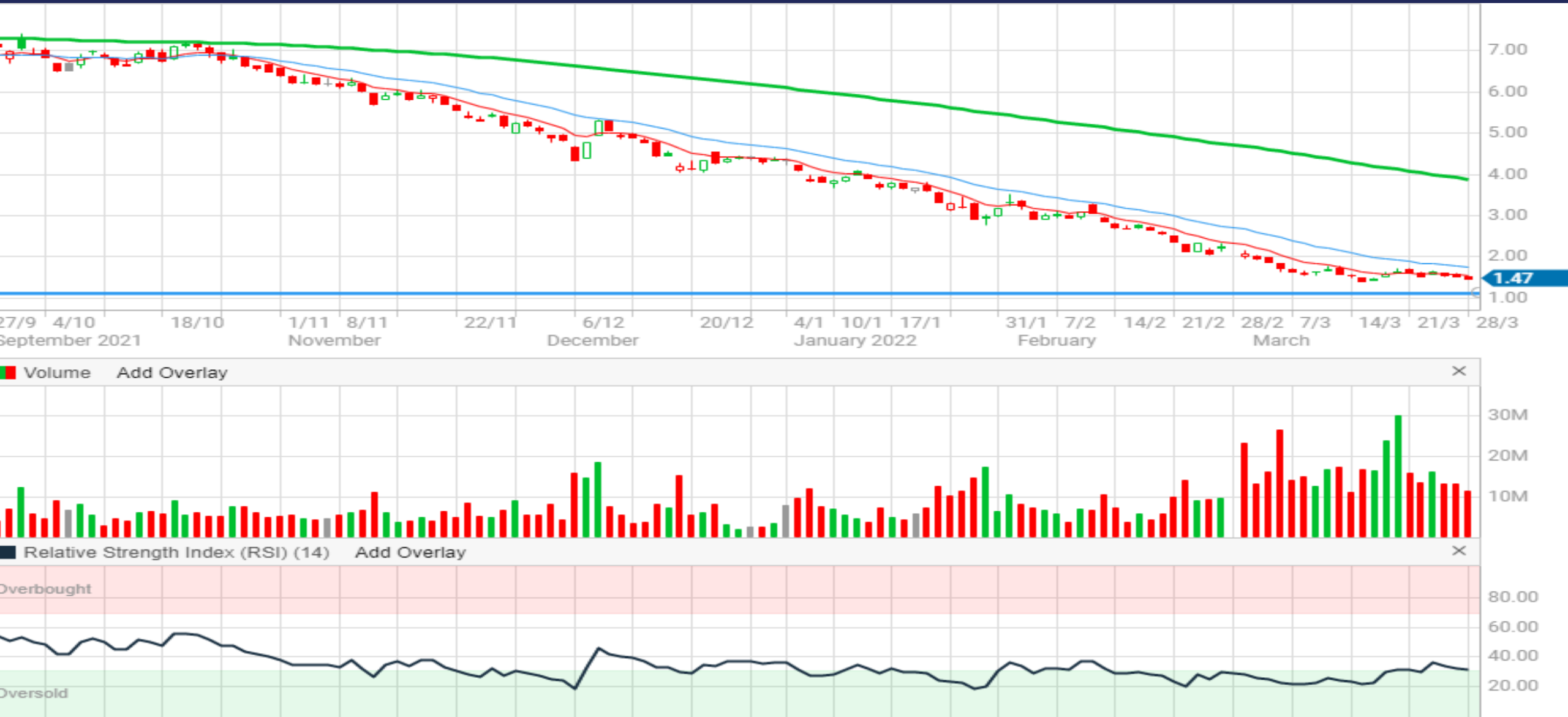


Z1P CO LIMITED (Z1P) – ATR 11.7c

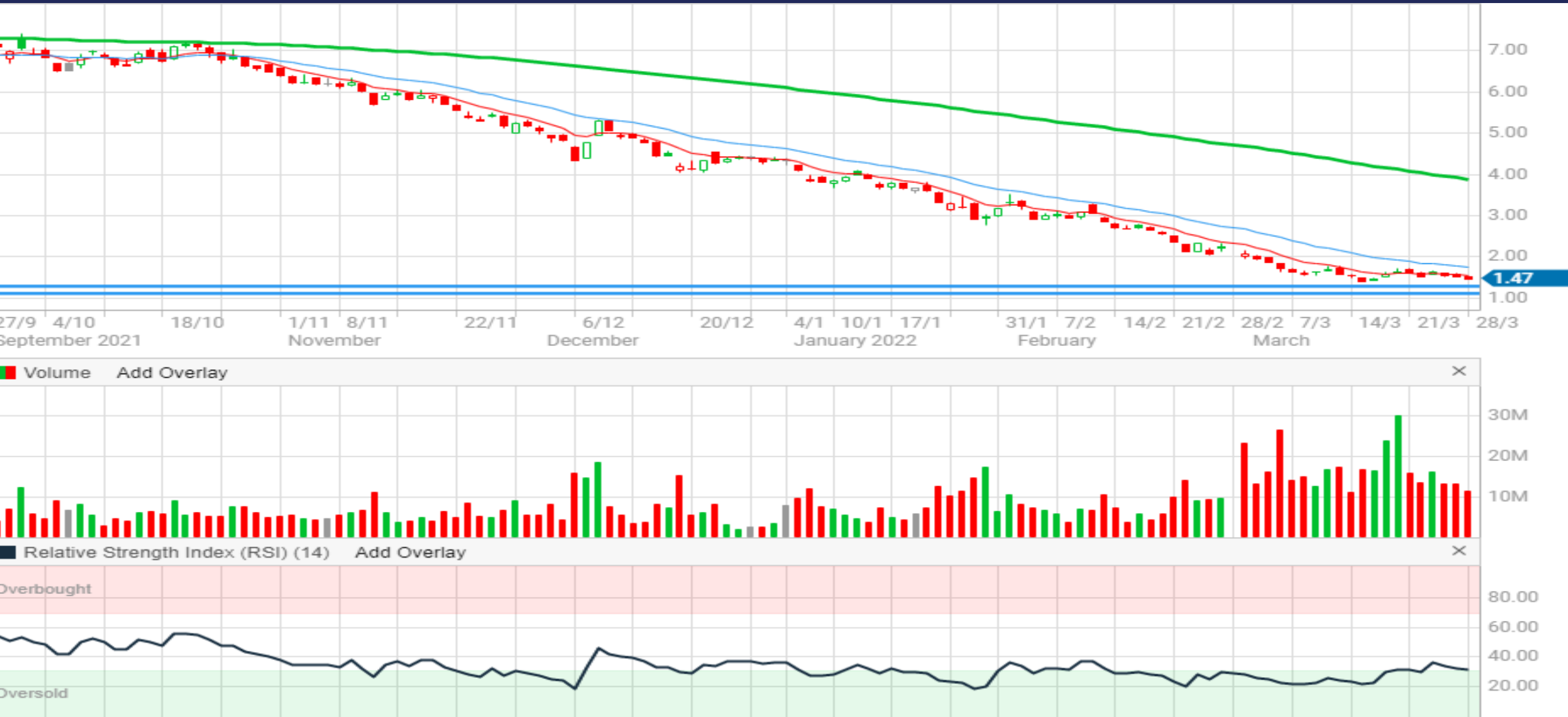


Z1P CO LIMITED (Z1P)– 3 x ATR (11.7c) STOP LOSS

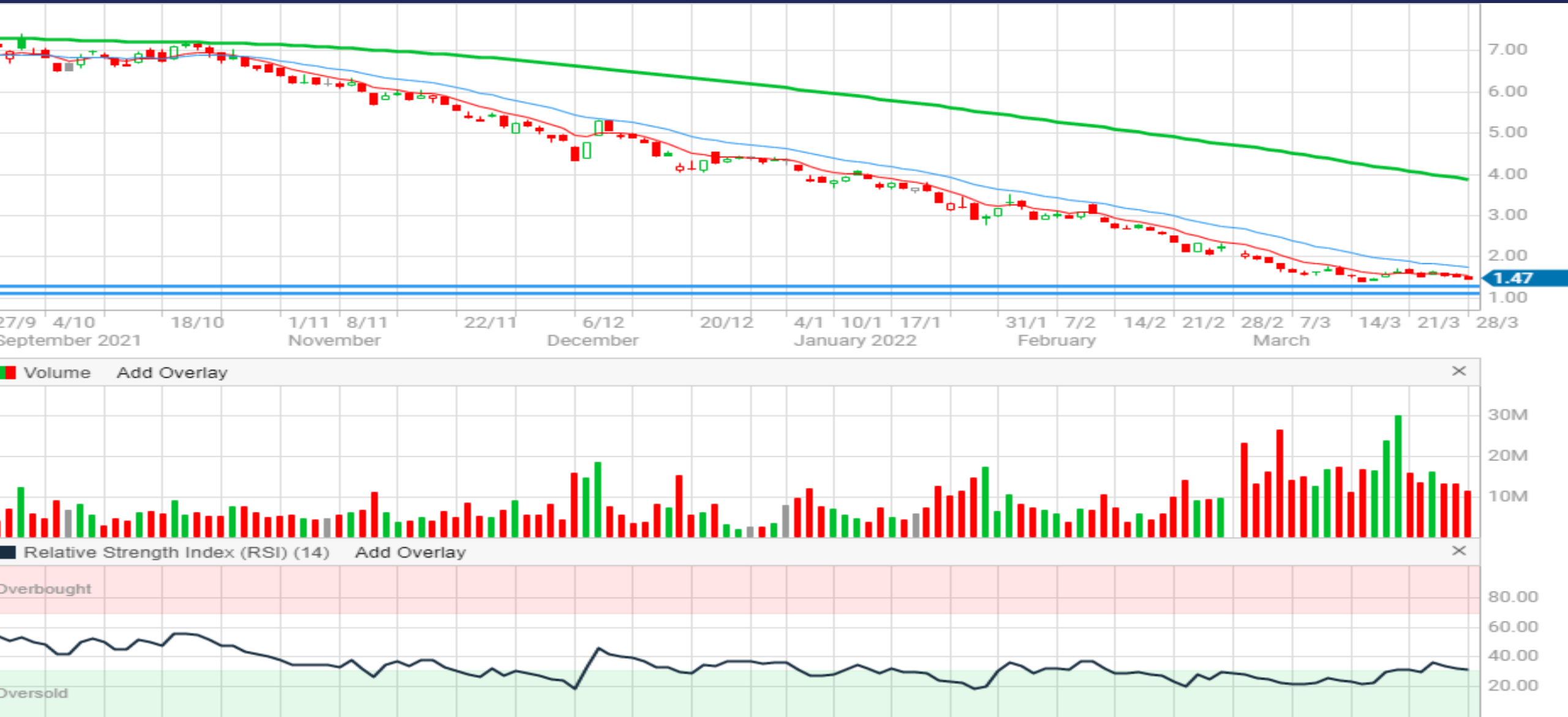
STOP = 147c – (3 x 11.7c) = 147c – 35c = 112c



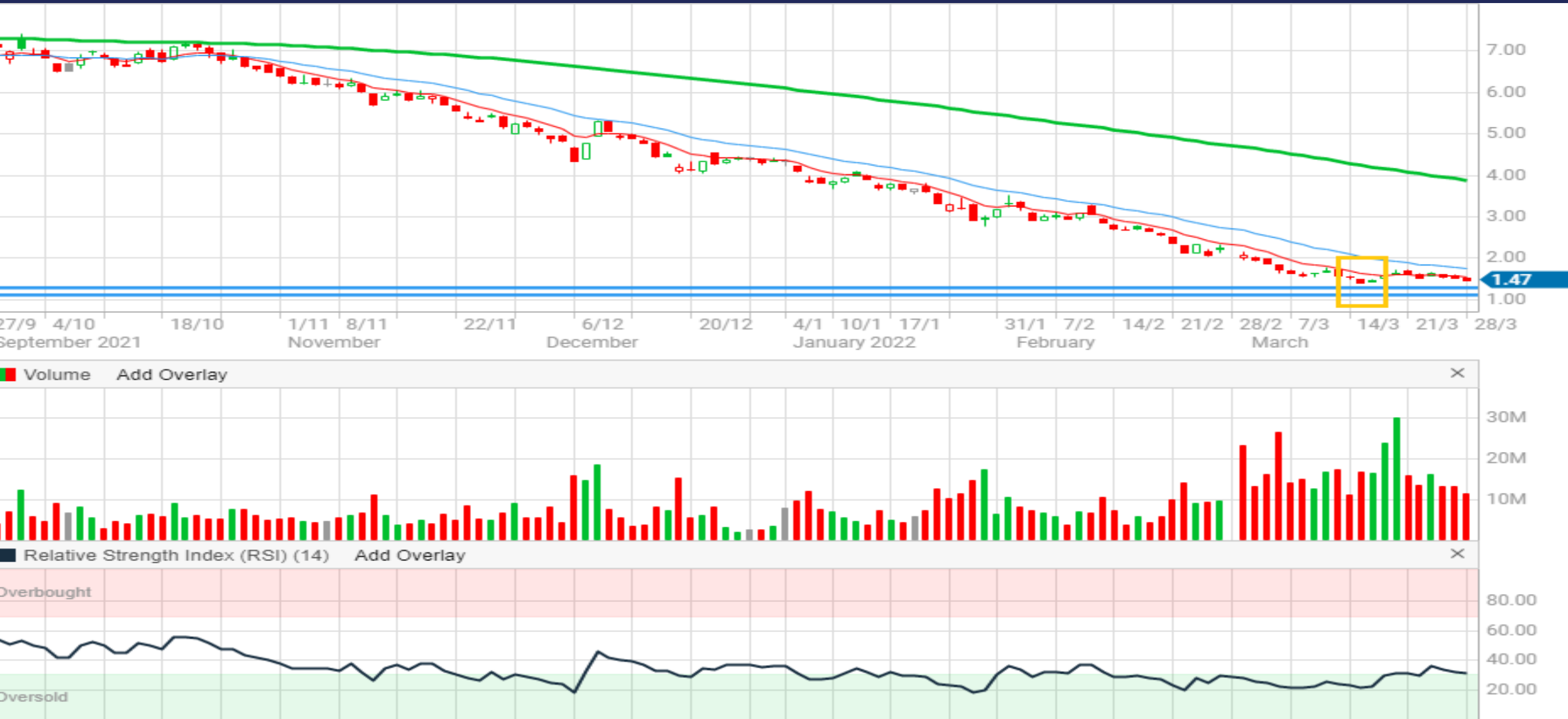
Z1P CO LIMITED (Z1P)– 15% STOP LOSS
147c x 0.15 = 22c. 147c – 22c = 125c



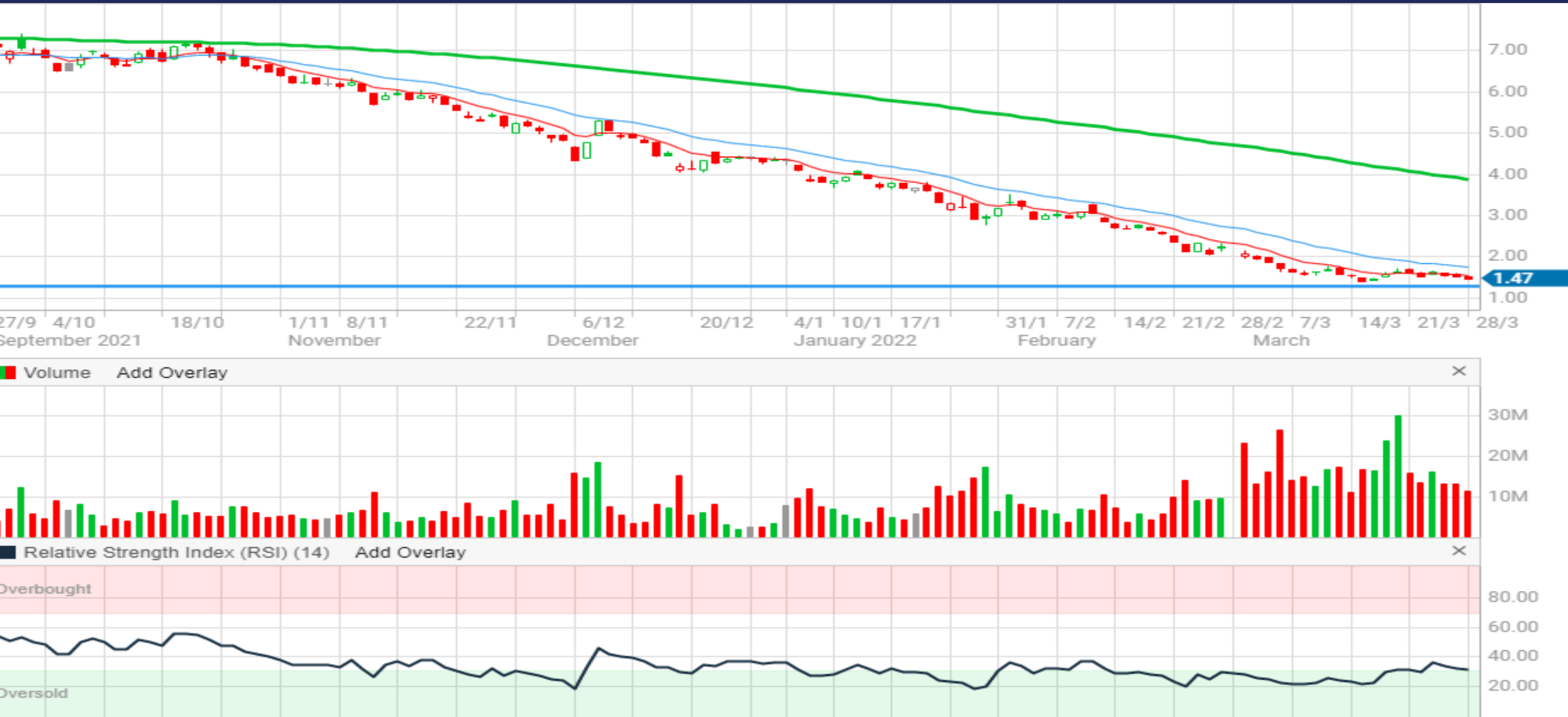
Z1P CO LIMITED (Z1P)– STOP ZONE (BOTH 3 x ATR and 15%)



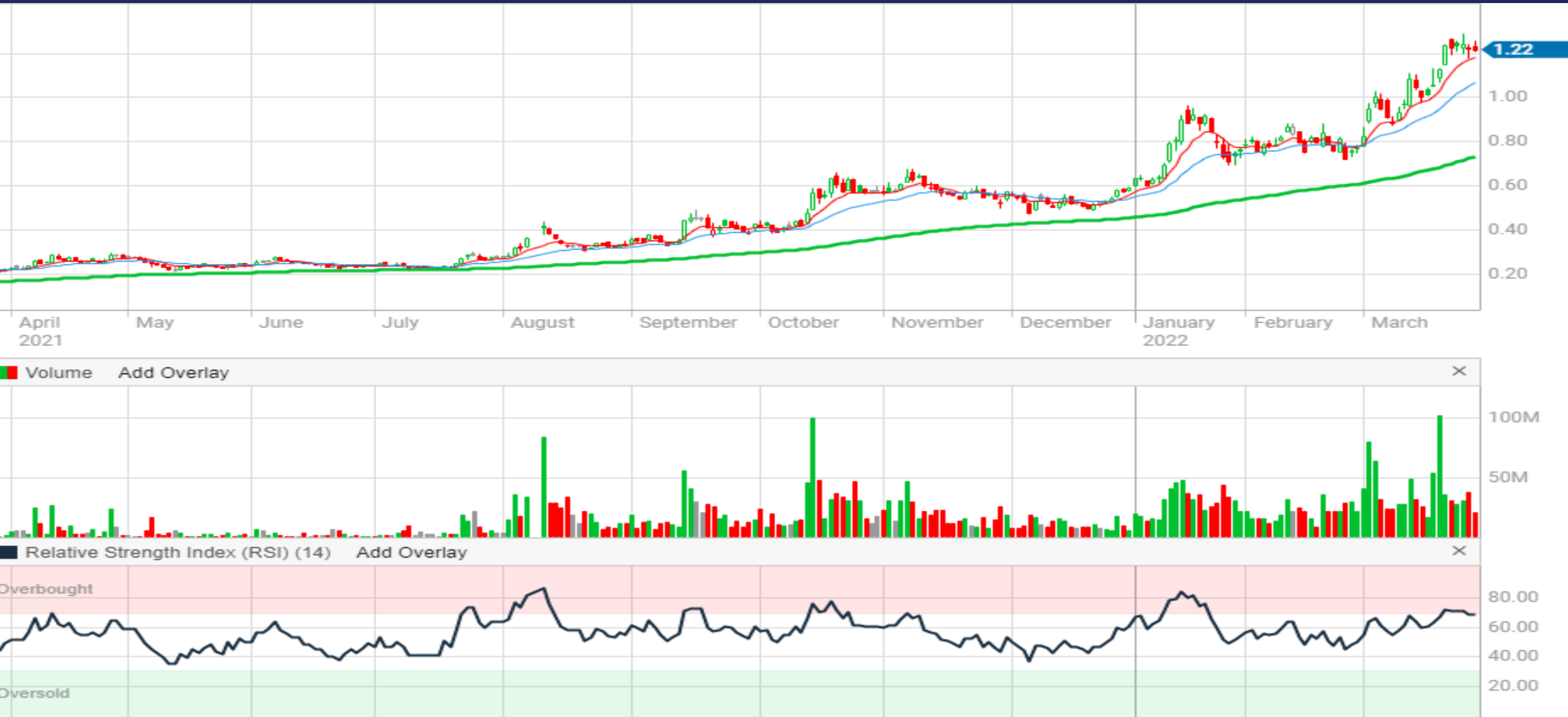
Z1P CO LIMITED (Z1P) – STOP ZONE
WHAT ARE THE PROBLEMS?



Z1P CO LIMITED (Z1P) – THE END RESULT: STOP AT 125c



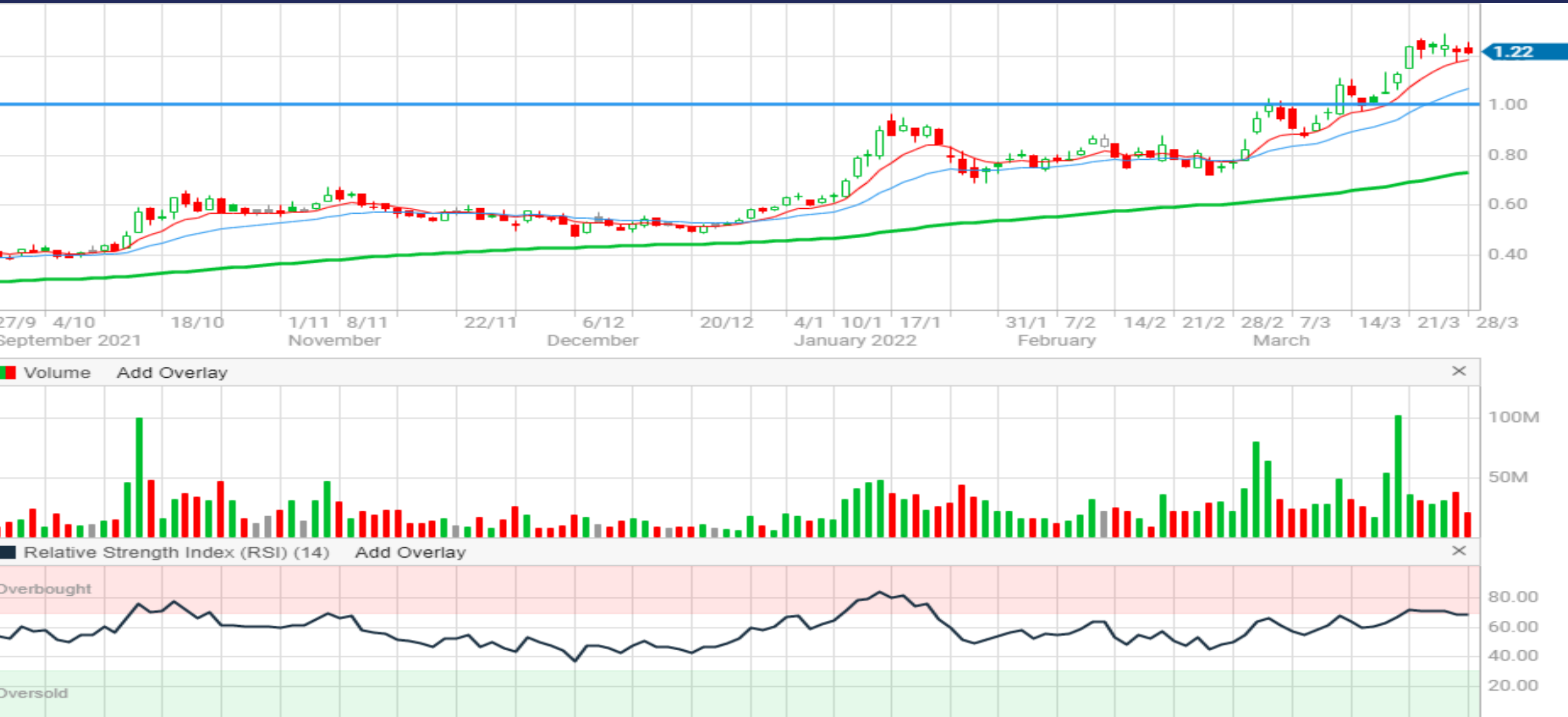
CORE LITHIUM (CXO) – 1-year chart



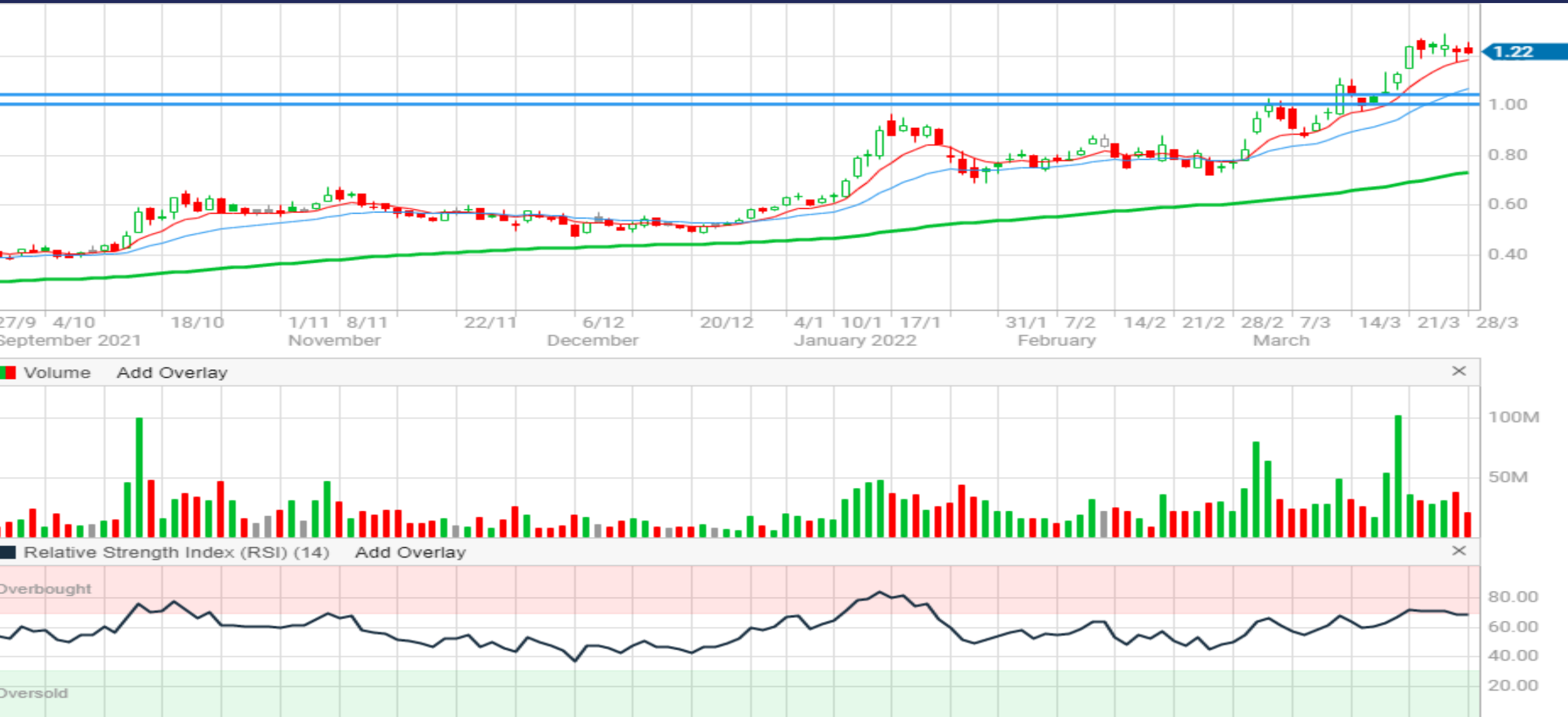
CORE LITHIUM (CXO)– ATR 7.1c

CORE LITHIUM (CXO) – 3 x ATR (7.1c) STOP LOSS

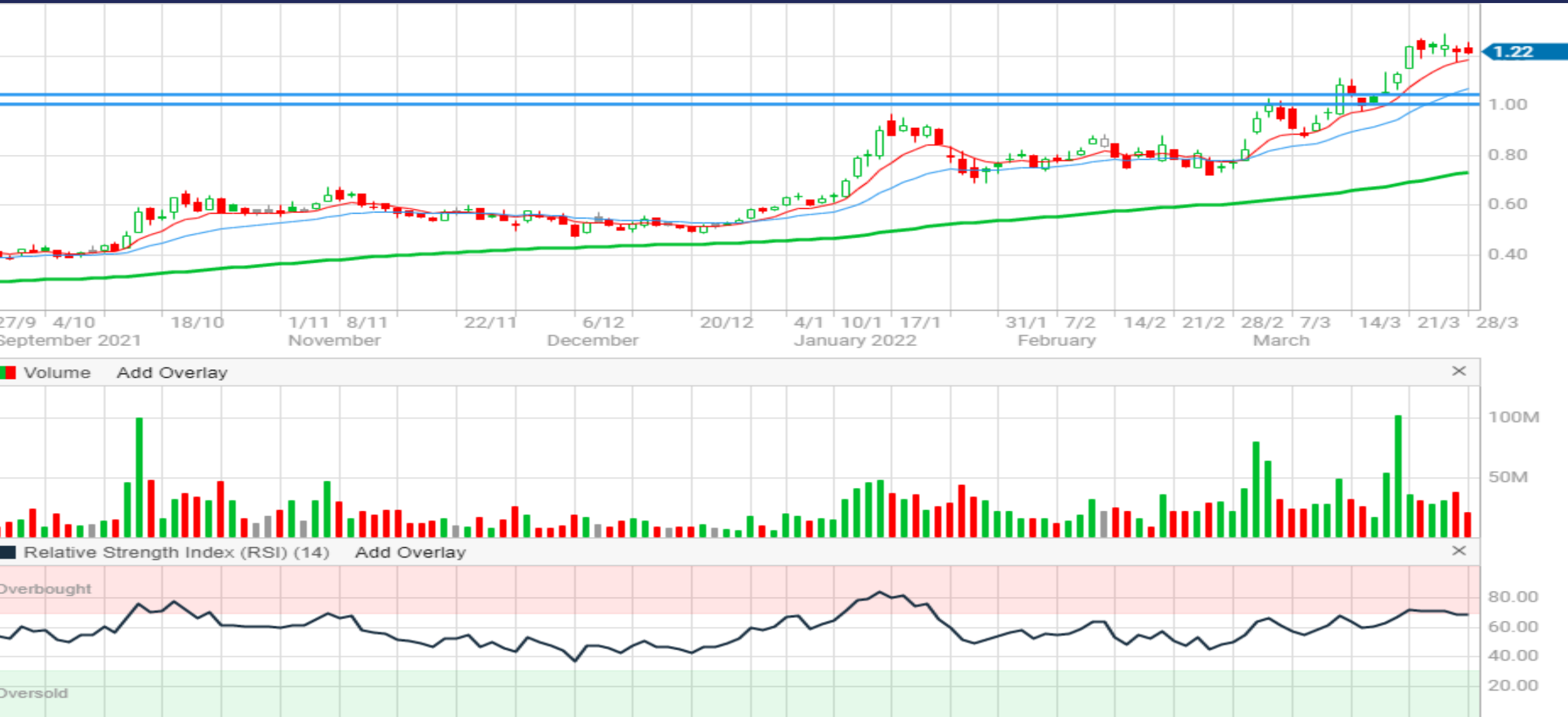
STOP = 122c – (3 x 7.1c) = 122c – 21c = 101c



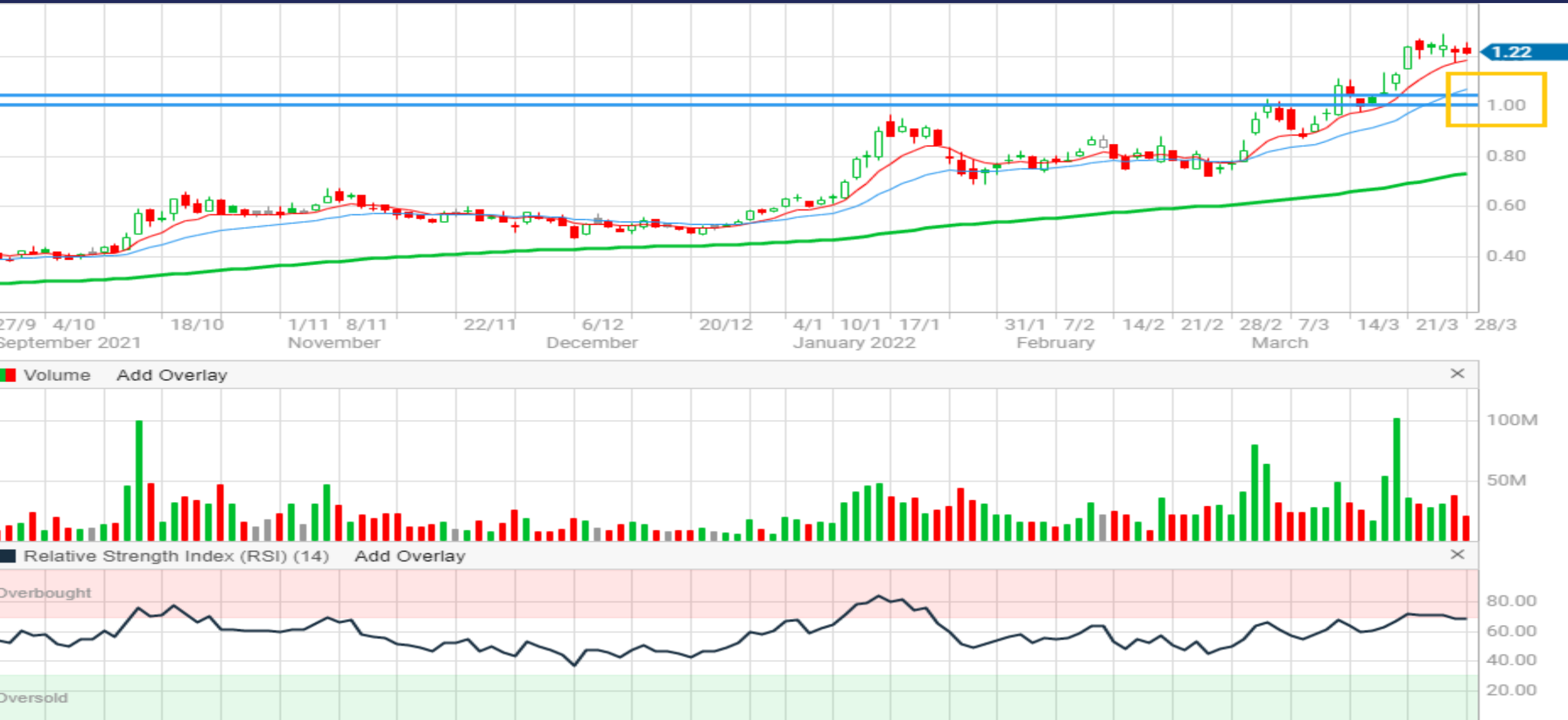
CORE LITHIUM (CXO) – 15% STOP LOSS
122c x 0.15 = 18c. 122c – 18c = 104c



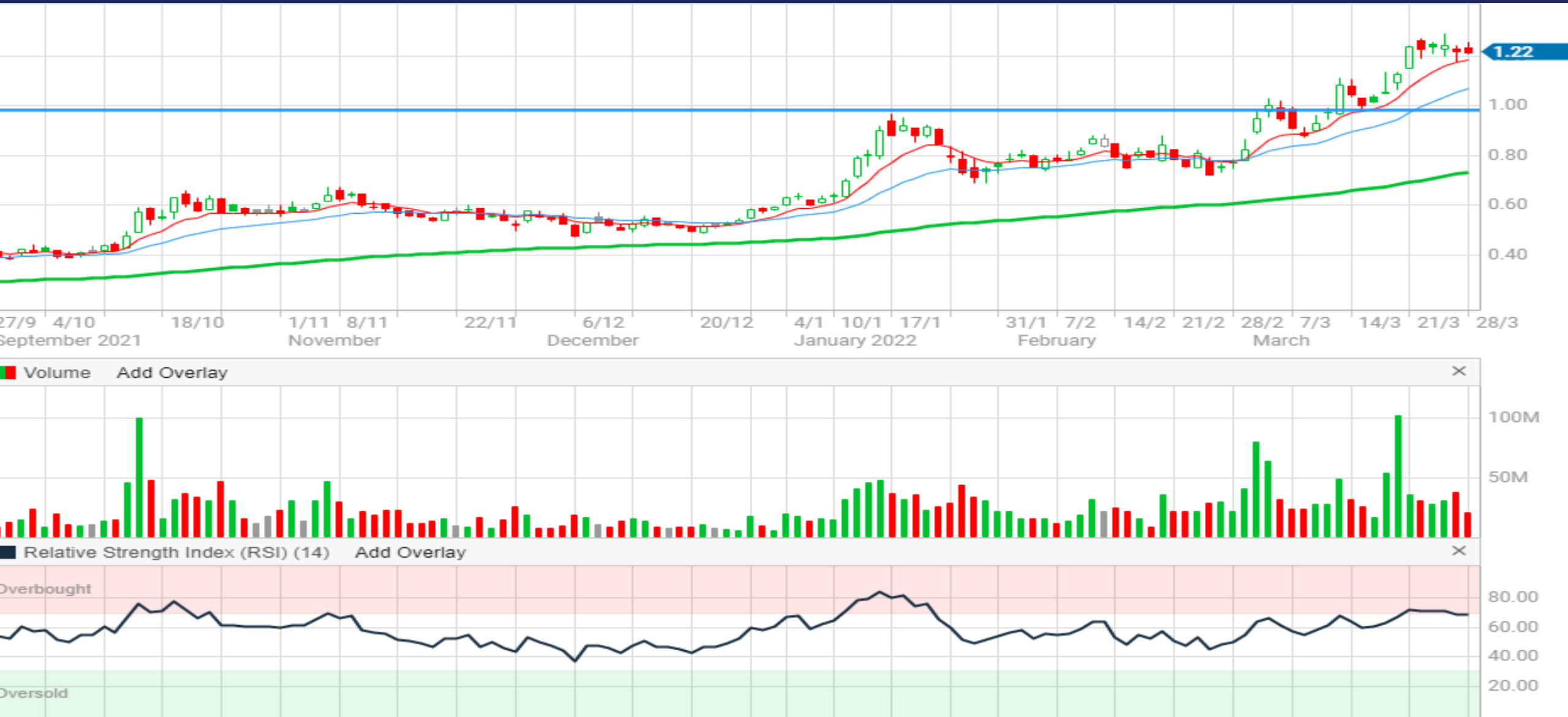
CORE LITHIUM (CXO) – STOP ZONE (BOTH 3 x ATR and 15%)



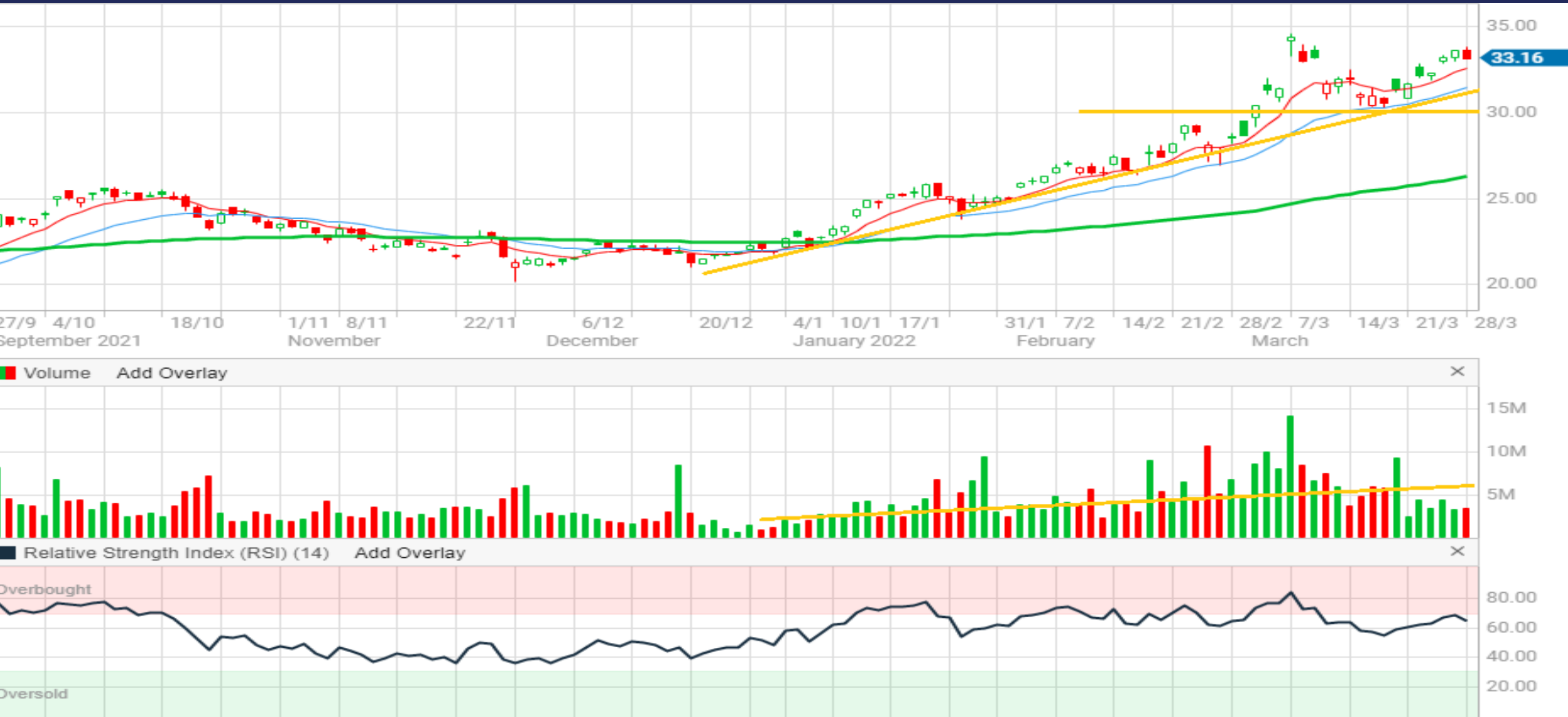
CORE LITHIUM (CXO) – STOP ZONE
WHAT ARE THE PROBLEMS?



CORE LITHIUM (CXO) – THE END RESULT: STOP AT 98c

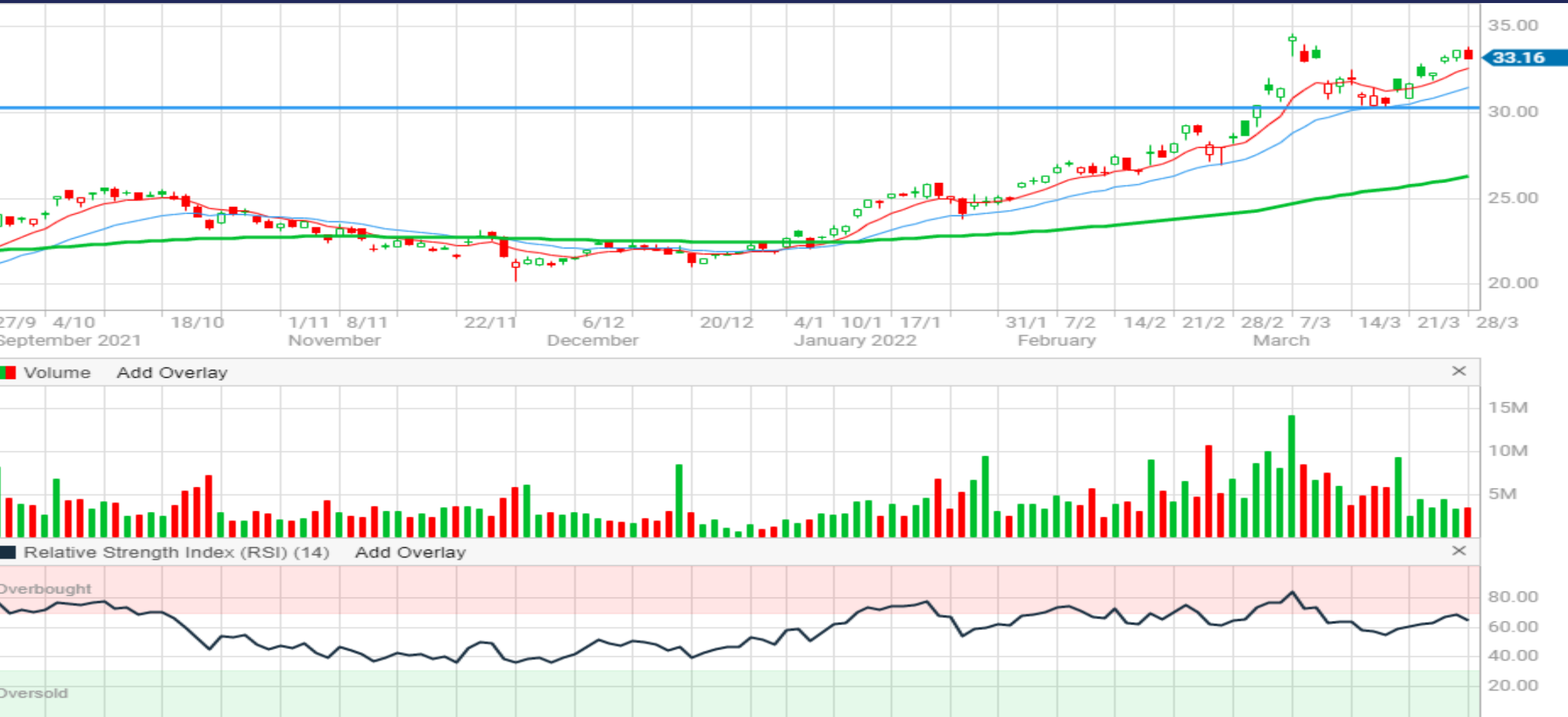


WOODSIDE PETROLEUM (WPL) – ATR 102c



WOODSIDE (WPL) – 3 x ATR (102c) STOP LOSS

STOP = 3316c – (3 x 102c) = 3316c – 306c = 3010c

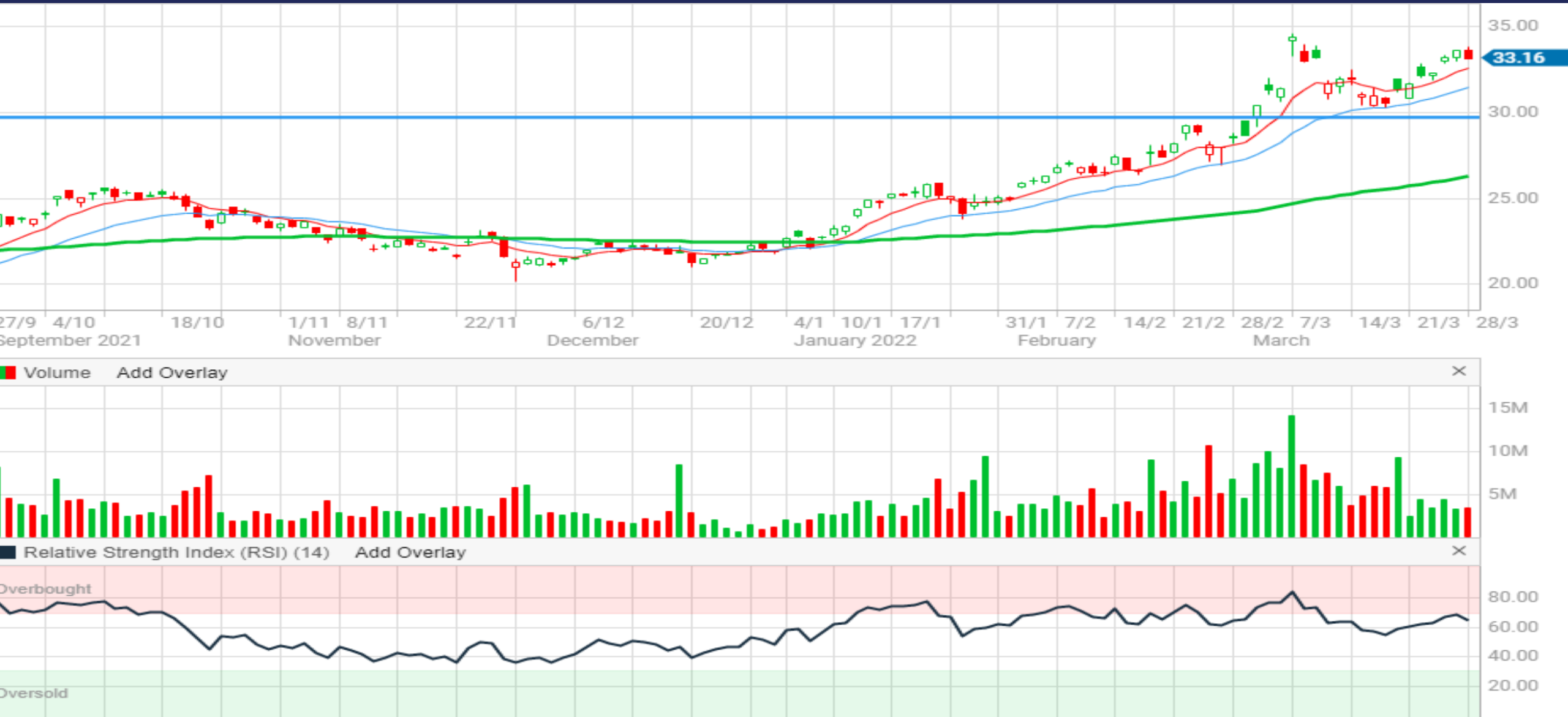


WOODSIDE (WPL) – 15% STOP LOSS
3316c x 0.15 = 18c. 3316c – 497c = 2819c

WOODSIDE (WPL) – STOP ZONE (BOTH 3 x ATR and 15%)

WOODSIDE (WPL) – STOP ZONE
WHAT ARE THE PROBLEMS?

WOODSIDE (WPL) – THE END RESULT: STOP AT 2970c



The Final Word

- There you have it: a fairly simple stop-loss strategy which relies on **tested research**
  - the 15% rule from entry and trailing
  - Some technical considerations
  - **Increases the probability that the stop-loss will be useful in its application**.
- I have seen many more elaborate strategies.
- Find something that works for you, is easy to apply and is **based on evidence**.
- **Apply it consistently**. Don't chop and change. Sometimes it will work perfectly and sometimes you will just get stopped out before a rally. So be it.
- If you apply a strategy consistency – as with any strategy - at the very least you will have **a data set that you can look back over**, determine its effectiveness, and then make changes accordingly.
- If you are going to constantly change any part of a trading strategy without understanding why, then you will get what you get.

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