TRANSCRIPT

Plan your escape – having a good exit strategy

Presenters: Matt Davison and Jonathan Lord

Matt Davison: My name is Matt Davison with the Trading Strategy Desk. And myself and Jonathan are going to be taking everybody through a topic today which is very important as Trey mentioned, which is planning your escape. Having an exit strategy, and really some of the things that we can do utilize different techniques such as indicators and position sizing. A number of different things that we can look at in order to make sure that we do have a plan for when it's time to get out of the trade. As far as the agenda goes today, we're going to be looking at a couple of things. So, first of all we're going to be determining risk amount. So, we're going to be looking at as far as how much do we actually want to risk when we're entering into a trade. And these are all things that we should really be thinking about prior to entering into the trade. We looked last week, I believe there was a webinar that was more focused and centered around entry into the trade. We're going to be focusing on the opposite side of that equation today. But really this is something that we should be thinking about prior to even entering into the trade altogether.

We're going to be taking a look at the mechanics of the stops and making sure that everybody's aware of what we can do with the different order types on

Fidelity.com and Active Trader Pro as well as some nuances and differences between the order types to make sure that nothing is happening that we're not aware of and just fully understanding what we can do to utilize those orders. We're also going to be focusing on position sizing. This is a topic that oftentimes gets overlooked. There's for whatever reason a human tendency I think to go in and when we think we have a really good idea maybe to put a little bit too much into a trade than what we're comfortable with, thinking that the idea is great, but that can lead to obvious disastrous things in a portfolio over time. If you go all in on something it could work out in your favor but sometimes when you're wrong, and there's going to be instances when that occurs, that can lead to devastating results. So, we're going to talk about how position sizing can help maintain the balance in our portfolio to make sure we're not overextending ourselves and we're staying in line with our goals and risk tolerance that we set out for our portfolios, as well as technical indicators is another thing that we're going to be looking at. So, we have four different things that we're going to look at that are commonly used. This is just the tip of the iceberg. Obviously, there's a lot of different indicators that are out there, not just those four. But we're going to focus on four that are really really common and make sure that everybody's aware of that. And then what we're going to do about midway through the session, we're going to transition over from the slideshow presentation that we're on right now. We're going to jump

into Active Trader Pro and actually show what resources we have available and how to actually utilize these things on some actual charts. So, with that being said, we're going to jump right in here. And the first question that we're going to consider today is this idea of the trade versus the investment. It's a really crucial concept that needs to be explored. And Jonathan, I'll give you a chance to say hello and jump in and take us through this topic.

Jonathan Lord: Absolutely. Great to be here, appreciate the introduction there, and applaud everyone for showing up today. Again, a lot of times we get a lot of questions about what should I buy, when should I buy it. There is the other side of this coin, other side of this transaction that needs to be thought of, the exit. When should you exit a trade? We're going to hear about all these certain things. We've heard trading types, trading styles. So, you've got the day traders, the swing traders, you got the buy and hold traders. A lot of times you'll see that. You mentioned the word human tendency. We're going to talk a lot about our human tendencies and why this is a great way to avoid those biases, those things that we may look for where we all heard of Apple and how if you zoom out far enough you see how great it's been. But for every Apple along the way there's thousands of bankrupt stocks, there's thousands of stocks that have not turned out the way that you might have expected or have not moved anywhere certainly. So certainly, again we're looking at things a lot

of times in hindsight. So, this is going to talk about really the idea of a trade versus an investment. We're going to be focusing on trade. It's in our name. We're the Trading Strategy Desk, we're not the Investment Strategy Desk. We do have people for that certainly. So again, talk to your branch, talk to your advisers definitely for that. But we're going to focus on some of those ideas of an entry and an exit. And that's what a trade really by definition is. You enter into the trade, you have an exit strategy, you have a plan. You have a defined risk that you've made at the outset of the trade, hey, look, I'm going to enter into this and I'm going to know hey, if this happens, if I'm wrong, I'm going to have an exit, I'm going to have a way to get out of that trade. Whereas again the investment, usually that's your buy and hold person, your person whose dollar-cost averaging, they just say, "Hey, I'm going to enter into this position, I'm not going to keep putting money into it, or I'm just going to leave it in the account." Maybe the next generation even it's passed down, who knows? With an investment, could be anything. So certainly, we want to make sure you guys have the right outset of what we are going to be talking about. We're going to be talking about trades. We're going to be talking about different time horizons certainly. And again, your investment should, in that instance that it's not the next Apple that you're trading or there is a significant downturn, there are ways again to manage that on a different timescale. So, your investment might need an exit. Everybody at some point does need to

have an idea of hey, what kind of risk tolerance do I have. We don't want to be sitting with an account where we have catastrophic loss in a position. And that can happen on either of these two types of trades.

A great segue here is this quote down at the bottom there. William O'Neil. He was the chairman and founder of *Investor's Business Daily*. The next slide we're going to see we're going to talk about one of his ideas of strategy. But he's talking about again that human element of you don't want to take a loss, so you wait and you hope. We're going to talk about why hope is not a strategy. Until your loss gets so large it costs you dearly. This is by far the number one mistake most investors make. Matt, I know you as well, we both worked with traders, we got to see their accounts, we got to see their performance over time. I think I don't even want to know how many clients I've talked to and seen their accounts. So definitely I've seen how this works. And a lot of times it is the clients that have the strategy in mind, they have the exit, they have a plan, that at the end of the day are the most successful in terms of their investment strategies. So certainly, again we'll move into really William O'Neil, again that *IBD*, that idea of maybe just setting a guideline, setting something in terms of your risk amount. You're going to see here he's going to use the line in the sand of 8 percent. *IBD* uses 8 percent as their guideline. We're going to say of course that's not for everyone. Certainly,

some of us may trade stocks that move 8 percent in one day. You may want to give yourself a little bit of room. But a simple calculation here. Again, these are just two methods that you might use. So as a percentage of stock price. So, example here of course a $50 stock times our 8 percent guideline means we have $4 risk per share or $46 of risk. Again, not all accounts of course are created equal. So certainly, again we're just using these for example standpoint. But easy calculation. And remember this too. We're talking about $4 risk per share. That's going to come back up again a couple times as we get into some of these indicators as well. Something like an average true range. Ability to calculate your risk per share becomes important which helps us then to calculate again how many shares we may be buying or selling. Again, those will come back around here. So, want to at least emphasize that. But again *IBD*, they use that 8 percent guideline. Certainly, you can use another one. But we're going to get rid of that human tendency to then say again you're at an 8 percent loss, and then you say, "Well, I'm going to give it a little more time." And then suddenly it's a 10 percent loss. And you go, "Well, now I'm going to wait for it to come back, but I still like the stock," and now it's a 12 percent. Again, we get this process of this idea of hope, this idea of pegging our brains towards a price. Whereas over time again we may not be right. Would you rather be right or make money is a book that we have to read for the market technician exams. So that's a great sentiment. Would you

rather be right, or would you rather make money in this market? And so again your timing may just be off, may have been a little early, maybe you were a little late. You may have picked a stock that will over time move higher. So that's why we use these strategies to then be systematic and again this is the exit strategy webinar, not the entry, so even if you do exit there is that ability to jump right back in. Nowadays with the zero commissions again we do have that ability. Certainly, want to keep in mind tax perspectives as well. But that's the percentage of stock price idea.

There is also the idea of percentage of trading capital. And keep in mind too there is segmentation of your accounts as well. So, when we talk about this, your strategy in one account might be I'm going to use this, maybe my day trading, my short trading, my swing trading account again is going to be on a certain percentage. But then you got this other account, your retirement account, that's a buy and hold, long-term investment. So again, when we talk about these keep in mind that there is segmentation. This may just be a trading account for you that you use for income, whatever it may be. So now we're talking about from the -- but we are talking about the account in total, $100,000 trading capital per se. And so, of that account, and again we talk about catastrophic loss of the account. If your account goes to zero you don't get to trade anymore. So, you want to make sure that you're preserving that

capital. Having a defined risk. And this is another way to do that. So, $100,000 times 1 percent, not a math major, but that's $1,000 risk per trade. It's pretty easy calculation. We don't need a doctorate degree to get through this one, $100,000 trading times 1 percent, $1,000. Again, these will come back around. We'll talk about these. But this avoids that concept that we get a lot of times where somebody will just say, "Well, I'm always going to trade $10,000 of this stock. Or I'm always going to just keep it at a round number." Remember that there's going to be various other ways to calculate this. There are also people that have very complex strategies. This is just two examples of that. There are people that may add in the probability function. People I've talked to that again are coders that go in and they create their own trading based off of other indicators. So again, we're keeping this as simple as can be. Keeping these two very basic calculations that'll help you to understand when you enter into the trade what you stand to risk in terms of loss and then hopefully again you can let your winners run and cut your losers short. I know the luminary Peter Lynch talks about that from Fidelity. He talks about the idea of you don't water your weeds and pull your flowers out. So, we're going to try to allow this risk to work where we are cutting those losers and by doing that we're going to have a systematic process. Matt is going to talk to us next about it because there is a way for us to do that. You've already had your questions on stop orders. We've already seen them come through. So, you'll

get some answers here. We're going to show you a visualization. We're going to show you how again this takes that human element out of it and allows you to create a systematic process. So Matt, I'll let you take it.

Matt Davison: Yeah, absolutely. So today we're going to be looking at the three primary types of stop orders and to start off with I'm going to go ahead and look at the top two because they're the most similar. So, we have a stop loss and a stop limit order. And both revolve around the idea that if we're looking at this from the long perspective, which we usually do in these types of webinars and coaching sessions because obviously the vast majority of market participants are operating from the long side, so we're looking at it from the long perspective, and the reason I clarify that is because if we're setting a stop and we're looking at it from the long side we're going to be setting that stop price beneath the current market price of the underlying security whether it be a stock or an ETF. So, what you do is you go in there. You're setting a stop price beneath that market. And then you either have a loss or limit that's affiliated with that. So, if you're setting a stop loss order, what happens is if the price goes down and touches where the stop is that's going to trigger your order. Now if we have a stop loss order what that's going to trigger is a market order. So, when the stop price is reached the order of a market automatically goes into the system and you're going to get the next available price. Now the

issue with that is that there's no guarantee that you're going to get executed at exactly your stop price, and this is a common misconception, this is why we throw that sentence in there, is because a lot of people think oh, I can just enter into a trade, I'll put my stop loss out there, and I'm automatically protected, I know that I can't lose more than that stop price. This is not the case. And I'll explain why a little bit more in just a second. But before we go into an example let's also look at the stop limit order and consider what that is mechanically.

So, if we're going in there and entering a stop limit, we still have a stop price that we're setting from the long side beneath where the current market price is for either the stock or the ETF. However, instead of a market order being entered we're going to then have a limit order in. And mechanically what a limit order is saying if we're going in and we're selling -- remember, we're looking at the long side, we bought first, we're going to be selling to exit the trade -- a limit when we have a sell in there is going to be at that price or higher. The issue with this is that there's no guarantee that the order will ever execute because not just a stop price has to be entered, like up here, but we also have to enter a limit price as well. So, there's two parts to this one. There's a stop and a limit price. We have to say what those are going to be for both when you're entering into this trade.

Now let's just look at an example really briefly here. And I think an example really ties them together and we can see the pros and cons of each. So, with the stop loss order if we're let's say in a stock that's roughly around $50, and then we're setting our stop at $45, and that's just a random number that I'm using for this example, ideally what we'd want to be doing is using something like technical analysis, maybe analyzing the chart using trend, moving averages, average true range. We're going to look at some of those things in just a moment in the back half of this presentation. But we come up with some kind of way to generate a number that we're going to use, in this case I'm just going to use $45 as the example.

So, what would happen here is if the price is at $50 in a perfect world it would go down to $45 and during the regular market hours and if it hits there you'll get somewhere around $45. It could be maybe slightly above $45, maybe slightly beneath $45, maybe right at $45. We're not exactly sure. But if it's during market hours we would expect that it's going to be somewhere right around there. But what about the condition of an overnight gap down? And when I use the term gap down what we're talking about is if the price one day closes at $50 and then the next trading session because maybe some kind of news came out overnight that was really bad for the security and it causes it to

gap down to let's say $40, so the reason they call it a gap, there's a space between the last closing price and where it's going to open the next day. Well, if that happens and the stock is now trading at $40, and you had a stop price in at $45, well, if we have a market order entered into the system and it's trading at $40, we're going to expect it's going to be somewhere around $40. But remember we entered our stop at $45. So, there's a $5 difference in this example between where we put our stop price and where we're actually more than likely going to get an execution. So that's one of the risks, is we could have a substantial loss further than where we're entering the stop price. Now let's consider the same example from the stop limit side. So, if we're thinking about the stop limit order, we're entering a stop price, let's say it's still going to be $45 in this example, but we also have to enter into a limit order into the system as well. So that could be $45 right where we put the stop, it could be slightly higher than $45, it could be significantly higher than $45. We can also do the same thing on the downside. We can put it beneath $45, we can put it really really beneath $45. And this is all going to depend on the tolerance that you have. There's no perfect right answer for which one we should ever pick. It all depends on the price condition and the particular security that we're looking at. But the risk on the stop limit order is this. Let's say we have the same example. We are a stock that's roughly $50. We enter a stop at $45. Let's say we enter the limit right at $45 just as an example. Market opens the

next day. There is that bad news overnight. Stock is at $40. Well, now we've triggered our order to be entered because our stop price is $45, we're well beneath that at this point, therefore our stop has been triggered. Now we have a limit order in the system for $45. But the stock is trading all the way down at $40. Therefore as we discussed earlier the system will not allow the order to be executed unless we get back up to $45 and you can get that price or better.

Well, what happens if it keeps going down from there? What if it goes from $40 to $38 to $35, so on and so forth? This could potentially happen and then the whole time we're still in the order and as the stock moves down that's expanding our loss. So, this is the concern that we have when we're putting in a stop limit. So, it's not to say that one is better than the other, because they're not better than each other, they're just different. We just have to be aware when we're using these types of orders what the differences are and how that can affect our position and overall, our portfolio.

So, moving down to the bottom here, this is more of a complex order type. It's still a stop order but this is known as a trailing stop. The way that this is different than the top two orders is that this is actually going to automatically be adjusted based on the price of the stock as it moves in our favor. So again,

we've been looking at this from the long side, as in buying first. Well, we can use any of these three orders if we're going short the market as well. It's just that the stops are going to be above the current price action rather than beneath it. But with the trailing stop again just for simplicity's sake we're going to look at it from the long side. In this order as the price moves up, which is in our favor, because we bought first, we want it to go up in a perfect world, it's going to adjust the stop amount in an upward fashion as well. But then as it goes sideways or moves down that stop is going to lock in place. It won't move down with the stock price. And we can define these as stop loss orders, trailing stop loss orders, where once our stop is triggered it's going to enter a market. We can also use a stop limit here as well. So, if it hits the stop price it's going to then enter a limit price into the system. We can also define these as dollar amounts or percentage amounts. So, if we're looking at a $50 stock we can say, "Put our trail $5 beneath." Or we could also 5 percent, whatever preference that we have depending on what we're trying to use. Keep in mind that with the percentage as the stock moves up it's actually going to tighten our stop price because as the price of the stock gets higher and higher 5 percent becomes less.

So, looking at an example here, we're going to look at this again from the long side. And we have these six bullet points outlined for different activities that

are happening in the stock. So, let's say we're going in here at circle one, and we're buying the stock XYZ at $25 per share. We had some kind of entry criteria that was met. And we said, "This is the time we want to enter into the trade." So, we went ahead and bought. Now we jump automatically here to circle two which is the price rises to $27, which hopefully if we're buying this going long, that's what we want. We want the price action to go up. And then at that point in time circle three is we're placing a sell trailing stop loss order with a value of $1. Now keep in mind we waited in this example until the stock price got to $27. We don't have to do that. As soon as we purchase the stock, we can immediately enter into a trailing stop loss order if we wanted to. But in this example, we decided to wait until it went up to $27. And effectively what this has done here is it's gone in and it's put in a $1 trail so if the stock moved down from $27 directly from that point down to $26 that would trigger a stop loss order and then we would have a market order in the system, we're going to get the next available price. And then what we'll see here, and this is being illustrated in circle four, as the stock price moves up, and this is being denoted in the gray line on your screen here, the yellow line is denoting the price of the stop, as the price of the stock moves up, the stop price will also move up as well. But notice here when we reach this peak and we start to move backwards and we start to go down in price what happens to our yellow line, what happens to our stop price. Well, that's going to freeze in place. There's

an analogy of dragging a rock up the mountain. As you move up it'll go with you. But as you move back down the rock is going to stay in place. It's the metaphor that some people like to use. And we can see that here. As it's moving down or sideways this is going to move sideways or stay in place. It's never going to go down from where we're at.

Now in circle five we can see the price action here move from XYZ; it goes up to this peak of $29. And as we see, once it starts to go back up, we also see the stop price start to increase as well. So, once it begins to go back up again this will move up as well. And then eventually what happens is the price reverses, it comes back down, it actually reaches our trailing stop loss, the $1, it goes down to $28, at that point our order would be triggered. We will have a market order. And we're going to get somewhere around $28. Maybe exactly there, maybe slightly higher, maybe slightly lower. So as far as the stop loss order, this is how we can use the trailing stop. Remember, we used a dollar amount in this particular example. However, we can also do this in percentages.

So, tying this in together, Jonathan is going to take us through position sizing and how this can help us determine the amount of shares we may want to put on based on some of those earlier concepts that we had as far as the 1 percent

rule possibly and the amount of risk that we're willing to take per share.

Jonathan Lord: Yeah. Absolutely. Thanks for that. You get some weird looks dragging your rock up the mountain there, Matt. But it's a great analogy. The idea of moving that along, getting more price out of the move, but then again it doesn't move back down. You walk back towards the rock. What's it going to do? It's going to sit in the same place. It's not going to run away from you. So again, we always get a lot of questions on trailing stops. I think it's a fantastic tool. We'll show you again how to enter that and other ways you might visualize that. But we're going to bring this back around. Again, we're going to hammer this home. The idea of position sizing. I think it's important. So, we've got another slide on it that references back to that other slide where we were talking about our risk defining as 1 percent. So, we've got this equation here. The idea of risk per trade, risk per share, and the idea of position size. So, it's going to be different dependent on your risk per share. You're going to want to adjust that. So, if you look at a stock, and we're going to show you pretty soon ways to analyze and ways to find maybe your risk per share, so you'd use an average true range, or you're using support and resistance on the chart, and you go and you look, you enter your trade. You already know the $1,000 side of things. We already said, "Hey, we got a $100,000 account, most we want to risk is that $1,000." We now have the

variable here, the risk per share. So, in this case we pull up a symbol and it's $2 per share. So again, tough math here, $1,000 divided by $2, we're going to get an idea of a position size of 500 shares. In that same position though maybe we decided that instead we were going to risk -- our analysis is looking at maybe a $5 risk per share. Again, we've increased the denominator here. So, we're going to get 200 shares in this instance, $1,000 divided by $5 now gives us a different share value. The idea of a smaller position size because of the risk that we're taking, the idea of knowing that hey, we still want to leave with $1,000 but again we need to then adjust because of how much risk we're taking. So, it's a different side of that coin. It's a different type of analysis and looking at it again where we don't want to just say, "Hey, every time we're going to buy $10,000 worth of stock." That's not really the strategy. We know that that would be a percentage of your account. But in terms of the risk that's not the calculation. The calculation is going to be based off of where that stop is. We have a great tool online that we're going to show you here soon, the Trade Armor tool, if you haven't seen it it's on Fidelity.com and on Active Trader Pro. And it allows you to again adjust this up and down choosing and showing you exactly at what price point you would be losing $1,000 based off of your shares. So, you don't have to worry about all this math. You don't have to create an algorithm to calculate how many shares to buy. We're going to show you there's some tools that can actually help you calculate that. So

again, just another reiteration of that idea of position sizing. Understanding that when you enter into the trade versus entering into a trade willy-nilly and then saying, "All right, now I'm going to try and figure out what kind of exit I'm going to make," after the fact, we need to have the plan in place before we get started.

So, let's talk about some of these ways to choose that risk per share though. So, there's the technical indicators. We've got four of them here that we're talking about and these are examples of it. Support and resistance, trendlines, moving averages, and average true range. Within each of these -- well, within the moving averages per se or within trendlines -- there's going to be other indicators that we can use, other methods. There's going to be some ability for us to use some of our tools that can automatically find some of these for you. Other ones are going to be again subjective to the person. You may be looking at support and resistance in a different way. I think I mentioned earlier the idea of a hard science versus soft science or an art versus a science. There's a little bit of art to this still. Some of these you can't really mess with. A moving average is a moving average. It's an average. It's what the calculation is. So again, utilizing these things. We take out that idea of our psyche working against us and using that hope as a strategy. We're going to try to use technical indicators, ways to make logic of price. The chaos of these

price movements. And then put it into a quantifiable solution here for finding that stop price.

So, what we're going to do, again this is was just the introduction here, because we want to show you. We spend a lot of time showing slides. We went exactly halfway through this thing. So, I think a good segue into let's actually look at Active Trader Pro, look at some of our tools that we can actually utilize to then show you again how we would do this in real time instead of these examples drawn with rulers. We're going to show you actual real stocks real-time. So, I will kick it right back to you, Matt, and we'll see your screen here on Active Trader Pro.

Matt Davison: Sure, yeah, absolutely, thanks for that segue there. So, I'm going to take a look at Apple to start off with today. And keep in mind as we're going through and using this as an example this is not a recommendation or solicitation in any regard. We're simply using this as an example to demonstrate some of the tools that we have for using the concepts of support and resistance, trend, average true range. So, what I have up for us right now is two moving averages. And what this is going to help us do is identify trend. That's the idea behind a moving average. It helps us to smooth out some of the noise that we're getting from the chart. If we look at this chart it's

bouncing all around. There's these wicks, candles, and what the moving average really does, it helps us smooth out that data and gives us a clear and concise line. Now I have two on here. I have a 20-day moving average and I also have a 50-day moving average. Keep in mind though that if we were to switch this frequency, right now I have it on daily, which is why these are moving averages based on the day, but if we switched this over to 15 minutes as an example, if we were to do that these moving averages are going to calculate based on those 15-minute bars rather than the day. That's a very important thing to note here when we go through and look at it. We get a lot of questions on that. You got to keep that in mind because it's going to change the levels that we're seeing at the time that we're analyzing our chart.

So, one other thing I want to mention before we jump into how we can use this is I'm using 20 and 50. These are only two of the moving averages that are commonly used. So, 20, 50, this is representing roughly about a month's worth of trading data. Usually, the average month has about 21 trading days in it. Therefore, if we're looking at 50 this is giving us roughly two and a half. So, this is more of an intermediate term trend. However, we can adjust these. So, if we come up here and we actually click on the SMA, we can click modify. Once we do that, we can do a couple of things. So, first of all I can change this period around. So, the period is going to change this, if I were to make this a

five as an example. It's going to move it from a 20-day moving average to a 5-day moving average. And we can do longer, we can do shorter. It depends on what kind of timeframe we're looking for out of our trade. Common ones are the 5-, 20-, 50-, 100-, 125-, 200-day moving average. These are very common ones that you hear about. For shorter-term ones, the 5, 8, 13, which are coming from the Fibonacci numbers, also very common to see people utilize those. But there's no perfect one. There's no exact one that should always be used. But these are ones that a lot of traders commonly look at which is why we're looking at these two today.

So, keeping the 20 for right now for our example. And then the other thing we can do, we can always change the color so we can come right here to change color. We can also change the thickness. So, if we want to see which one is a little bit more prominent we can always come in here and change the thickness. It'll make it a little bit different. We can also make it dashed. So, it's really more of an aesthetic thing. Do whatever you think is the easiest for you to do.

So, I'll just leave it like that for right now just to differentiate the shorter term, which is going to be denoted here in the red, versus the longer term, which is the blue, which is the 50-day, this is also known as the slower moving average.

The reason why one is considered fast, and one is considered slow is because if we're only using 20 data points obviously the most recent one is going to have more of an effect than if we were to use 50 data points because that's just how averages work.

Now just like we can use moving averages to enter into a trade, we can use this as a potential buy signal and entry criterion, we can also use the same concept for analyzing price in relation to the moving average to exit a trade as well. So, one common thing that people can look at is you can choose to maybe decide if well, maybe I'm entering the trade if we get price above the moving average of 20. So, we can see that right here if we go back. This is a year-to-date chart. We're looking at January 20th. Maybe this is the bar where it crosses the 20-day and this is where I might be looking to enter the trade. Well, if we're using that we can also use the same criterion to go in there and look at the exit point. So, we can see right here on this bar we're crossing beneath. We also do it here briefly. We're crossing beneath the 20-day moving average. So maybe this is a point in time at which we're looking to exit the trade.

And the way that we can look at this, I believe that Chase was on the webinar when they were talking about trading the dips and the downtrends. And they

were exploring this idea of having the crossover price above a moving average and then riding that trend until it fizzles out and then is no longer prevalent or it's just not continuing in that trend once it crosses back. Well, this is what we're talking about in this webinar, which is the exit strategy and planning for once it crosses beneath that line. So, this is one way that we can do it and we can see several examples of how this would play out. We can see it again right here. If we look towards the end of March, we see it cross over from this line right here above the moving average. It rides this trend and then it crosses back down right here. Maybe this is a point at which we're looking to mitigate our risk and take a profit. So, we can see pretty clearly here this would have been a profitable trade.

Now on the other side, one of the issues with this is we have the idea of whipsaws. So, we can see that from this chart right here. So, if we go to March 15th we can see it gap up above the 20-day moving average for one day and then right here it actually opens up beneath. So, we would have been in the trade for all of one day and then if we exited out if we did it beneath the 20-day moving average, we'd actually have a loss on the position. So, when we look at something like this we have to keep in mind that no trading system is 100 percent perfect 100 percent of the time. If it were every single trader would use it and it would always work, that would be the conditions that we'd

have to have. That's not what actually occurs in the market. We have this idea of the whipsaw, which is it crosses above, goes beneath, stays beneath, crosses back above here, crosses back beneath. And we see this usually in consolidation periods where the price is going sideways. We can see it go above and beneath the line multiple times. But if we look at this we're still mitigating our risk so that if this went down significantly we're not along for the ride on the downside. And then if we're going back above the line we can see there's definite times especially in longer-term bull markets like we've been in for the last decade, there's times where we get above this line and ride it successfully and then are able to exit the trade for a nice profit. We can see that again here. We go above the line here on June 4th and then it stays above it for quite some time all the way up until this bar right here. A pretty significant level of change in a favorable fashion if we're buying first and selling later on.

So, one other concept that I want to look at with the moving averages that's very common is the idea of the moving average crossover. So, for example we can look here and see the faster moving average crossing beneath the slower moving average. So, we're going to use this as a potential sell signal. This is in direct opposition to if the faster moving average is crossing above the slower moving average. This would be considered potentially a point of entry. So,

we can see that in multiple places on the chart here. And this is another way that we could potentially trade. If we go back out to the year we can see multiple cases of this happening. We see it crossed over going back to November of last year. We see this faster moving average cross above the slower. And if we were to enter at this point in time it stays above this line for a significant amount of time all the way up until about this point here. It would be this bar I believe right here that it would cross back over. The 26th of February we see it cross beneath the line. And we can see the price action would have been favorable on this particular trade. The one thing that we have to be cognizant of when we're using the moving average crossover as a potential for entry and exit out of the trade is that it does lag. So, we can see pretty clearly we have this huge price action. It's very parabolic. Going back to the end of January. We see it go up and touch at one point $145.09. That's the high on January 25th for this timeframe all the way until we get out to here. So, if we entered the trade somewhere around here in this area and then we have it go all the way up to here, by the time it eventually crosses over, look how far we've dropped. And the reason why is because these moving averages are taking into account data points over 20 days, 50 days. Therefore, the most recent price action isn't going to be directly correlated to the crossover in the moving averages. The point I'm trying to make here is that they lag. So, we have to be cognizant of that. Not that we can't use the

moving average crossover as an entry and exit point criterion. We just have to be aware of the fact that these do have a lag. So, we're not perfectly timing it to where we're getting out at the exact high and then buying in at the exact low. That's not the way these work due to that lag feature.

One other thing that we can do. Maybe we think that this is too slow for example. Again, we can come up here and change this. We can change this from 20. We can go over here and change it to five-day. Well, as we can see, if we change it to the five-day, this line, because there's only five data points that are involved here, is going to be much more reactive to what price is doing. So, it's a little bit quicker than the 20-day, and it's going to cross over. We were down here when we were looking at the 20-day crossing over the 50-. Well, with the five-day, we're all the way up here. So, it was a little bit more reactive. Again, this can be a good and a bad thing. If it's more reactive and it's predictive of a longer-term trend, this is going to help us. However, there's going to be a lot more whipsaw action because price is going to oscillate more quickly back and forth over the line.

Now one other thing that I want to mention, and I'm just going to clean up this chart really briefly here, is we don't actually have to rely on moving averages alone. It's certainly an algorithmic way to identify trend, if it's pointed up trend

is up, if it's sideways it's sideways, if it's down it's clearly going down. Very easy for that to smooth out and we can see the intermediate-, shorter-term, or longer-term trends based on the way that the line is moving. But we can also draw these trendlines ourselves.

For example, if we come over here to the draw tool we can go to this trendline tool that we have. It's going to be the circle connected by a line. We can come over here and once we do that, we can actually use this. We can come over here and draw our own trendlines ourselves. And I'm using what's called the swinging bat method. Basically, what this is looking to do is connect. Usually, we're looking for about three points that we want to connect and we start at one point and we swing the line around. So, if we were taking this we're just swinging it until we're coming into contact with roughly three points. So, I'm using this as an example. Once we get this, we can extend this out to the right, can also do the left if we were going the opposite direction if we wanted to. But extend it out to the right. And we can use this as a guideline for what the trend is doing and then we can clearly see what's happening here. It's on this upward trajectory starting at the early part of June as it begins to move up. It starts to consolidate, move to the right, it goes down and touches the line, which would be potentially a warning sign, we might consider what is our plan from here, and then eventually it breaks the line. And then what do

we have at that point? Well, we have a decision to make as to whether we're going to stay in the trade or not. And then we might need to look at some other things such as support and resistance, which is another use of the moving averages.

But as far as support and resistance goes, we do have some tools available through charting, algorithmic tools that we have available through Trade Armor and Recognia. And Jonathan, I'm going to turn it over to you and have you walk us through that.

Jonathan Lord: Yeah, absolutely, appreciate that intro into the SMAs and trends following. So, if you guys saw that image earlier where we showed the trailing stop, you'll notice that was a trending stock that was at that point. So, having that, again how we make money in the market, we want to find trend. That's what really an SMA does. It shows you out of all that noise that's occurring on your timeframe is the trend up, is the trend down, is the trend sideways. And so, we want to be trading trending markets from a technical analysis standpoint. And so by doing that then we can again ride that trend higher. Hopefully using something like a trailing stop or moving your stops manually or using alerts to trigger so that you know exactly what's coming up. So, let's take a look at my screen here. I'm going to steal it from you if you don't mind.

And we're going to utilize again a couple other tools just to show you visually how to do that. And I do want to emphasize as well again everything is based off your timeframes. So, you were showing the five-minute SMA. There's 200 SMAs, there's weekly, there's monthly charts, there's yearly charts. They go all the way out. So again, depending on your timeframes may depend on how you want to use that. So that 200 SMA or that 5 SMA like you were showing earlier on the weekly chart is actually now it's five weeks' worth of average. So just keep that in mind when you're utilizing some of these tools. Your timeframe needs to match up with what's your sentiment and what you're comfortable with. Definitely a good way to headline that.

So again, Apple as well. We'll just stick with it here since again I think you guys have probably all heard of this stock. And again, just for illustrative purposes only though. We're going to pull it up here. I've got multiple things here. I've got my chart on the left. Got some quote boxes here just to give you a picture or image. We're going to bring that back around here shortly. And then I've got this tool called Trade Armor up. The Swiss Army knife of tools that we do have. It makes sense. It's in the trade and orders area. There's Trade Armor right here.

And so, what we're talking about with Trade Armor is the concept of

protecting ourselves, armor. If you're a knight you're probably going to want to have pretty substantial armor on you. The same idea here. When we're trading, we want to have armor on our positions. We want to have an exit strategy that's in place ready to go. I think we've hammered that point home at this point. So, let's take a look and see how we would do that, what would be the process of actually placing that kind of trade, what would be the thought process behind it.

You mentioned there of course the idea of trend. You get this breakdown of trend. So suddenly now we have a line that's moving up. Now we have a horizontal line that's going to be created. So, we ride this trend for some time. It gets broken though. You drew that line perfectly along this trend. We can see it. Our eyes are really good at that. Humans are great at finding these patterns. But we see that that's broken, and it's got this sideways action. And this looks a lot like that trailing stop image you showed earlier. We put in our order. The trail moves up with it. It stays. If you have it done correctly it should stay down here to a degree, go sideways, and then as we break out to new highs it starts to follow again, come back down, and ends up getting probably filled back in here. So instead of -- again you're buying yourself a little bit more time. You've got a little bit of extra room that you could have squeezed out here in order to move that stop higher. So, what we can do is

once this has been created we do have some abilities to just draw it ourselves, number one. If you go to the draw tool, you'll see here we do have resistance and support. All that does is again utilize the actual color scheme for which one is which. You can also just do a horizontal line on your own. So, go in here. And again, I'm just going to pick out a price range. So, we can see here this was our first stop. Tried to get through again. As time, again one bar. We got out, two bars. And then we're right back under again. We finally do break out. Comes back down. This resistance becomes support. We're going to talk about that, the idea of them flipping back and forth. But this is how you would just draw your own line.

Again, you can see here there's a lot going on. So certainly, how I was always taught was that you don't take a pen to the chart. You actually should take a crayon or take your Sharpie essentially. So, you can make that thicker in this way. Again, just another way to create that visualization. And then so again we're drawing this on the top side here. So, we know that this has occurred. So, this is the resistance. It's resisting price moving higher. A lot of our terminology comes from the idea of long positions of course. So, there's also the ability then to draw on the other side of that. So, we'll just use the support line and we're going to try to find other areas that do the same thing, that are areas of contention as we would say.

Stock market is all about supply and demand. You're going to have areas of demand where buyers come in. You're going to have areas where supply outweighs demand and comes back down. So, you can see as it is ping-ponging back and forth we start to get some levels. We start to get our brains, algorithms. Everything is starting to say, "Hey, look, these seem to be pretty important levels." A lot of times they also round out here. But this is the basic concept of support and resistance. Once we exit that trend here on the short term, we then see it ping-pongs, tries to resume the trend, and then fails. But this is where we can again attempt to make sure that we have our exit strategy in place.

So, I'm going to show you here a couple things that we can do. I'm going to remove these back from the chart. We do have the ability to under the technical analysis tool, this is again Recognia that comes through for us here. And so, they have a couple things that they've built in order to essentially just automate this process. You don't have to worry about me, again where I put mine at. You can see what Recognia says. So, they add the support and resistance. They're looking at it from a maybe different timeframe. So, you can actually adjust that by modifying short, intermediate, and long term. But again, check your work. This is a way to do that. A way to understand exactly

what maybe they're thinking in their process. We can take that off as well again by clicking and removing, deleting it. There's another method as well. We talked about stops. So, this is that same thing. This is not a trailing stop. This is a pure hey, this is a point where we've seen support and resistance. So Recognia goes out and creates this line for us. Again, modifying it, if we're short or long the market, we can again change where it is, and we can change the distance. So, we got this tight, really close to that. As we loosen it up maybe a little bit here you can see it's going to go back and find other areas maybe that were support in the past. And again, this would be an area to put, maybe follow along with their concepts, again depending on your timeframe. If you zoom out even further, we may get different things. We utilize the weekly bars; we may get a different price point. So, we're going to make sure this is tailored to everybody here.

So, this on the right side, let's go back to this tool here, the Trade Armor tool. Again, I mentioned the Swiss Army knife here. The idea is you do have all of these available things like news. If you have a position in the account, and see this test account here, we do have the ability to view our gain loss on positions, closed positions, and open orders here. The research of course is great as well. We always want to be aware of things like analyst opinion of course. The idea of earnings reports coming out, dividends, part of those that

come through. Options as well is here if you were interested in options. But we're going to talk about just maybe entering a trade. I'm going to show you. There's not Apple in this account. So, we're going to say there's a couple ways to do this. You can directly from the chart here add a trade or set an alert maybe at a certain price point. So, we have here support and resistance is built in. You can adjust the timeframe. We can adjust the timeframe of support and resistance or move it altogether. If you're using maybe the chart over here. But from this point we can then say, "I'd like to add a trade." So, you can go from here, here. You can click here as well. If you're buying you just go ahead and click on the ask button. Again, many different ways to get to this trade ticket.

What I'm going to do though is I'm going to enter in what's called a buy triggers a bracket. We talk about again exit strategy. Well, let's go all the way through. We're going to have three separate orders here. We're going to have the buy which is going to trigger the opening of the trade. I'm just going to enter 100 shares here for example's sake. And then what we're going to have is again this is a one-triggers-a-one-cancels-the-other is what the OTOCO stands for. What we're really just doing again, this is the idea of conceptually looking at a trade and exit strategy. So, if we have a buy at market, we have this stop limit, or stop, I'm sorry, that is showing up here. We see right here

the lower area would be a stop. So, let's take this down to $140. And just say you can do that using this, you can drag it down, or you can type it in here. And you can see here that we've got exactly what we're standing to lose at this price point based off of this market order at the current price. We could then stand to lose 2.5 percent maybe in this instance. We can move that around if we need to. Also be careful about putting these on the actual round numbers. Certainly, again stocks tend to trade in that range. So, we can do this. We can move these around a little bit to get it to our desired area. So, in this case again our risk profile. Risk versus reward here. There's always going to be giving and taking in the marketplace. We can then adjust maybe our sell limit. So, we now have an exit strategy to either side. If we were saying maybe a two-to-one type strategy. So, if we're saying 3 percent, maybe we would be looking for something in the range of 5 to 6 percent. Again, these can be adjusted. This can be brought down if markets change. Certainly, this can be brought up as well if we do get market movement to the higher side. We can also do the trailing stop of course as well, which would then move this higher.

So, this would be our process. We found our support here based on Recognia's tool. We now have an exit strategy to the upside. Only one of these can be true. It's an either-or type situation. So, we buy at market. We can see here that again one of them will fill. And that's where the C comes in.

It'll then cancel the other. So, if we get our fill here, we make our $800, we would then walk away with that. This order would then cancel out. So that's the idea of again having an exit strategy and selecting based off of maybe support and resistance zones or maybe based off of like we talked earlier the idea of choosing a dollar value. We said like $1,000 earlier. So, we could do it in this method. If we know that this is here, we could increase our shares. Remember that equation I showed you earlier there.

Lastly, we want to show you here the idea of average true range. Again, this'll help us in terms of selecting our area of stop. So, this is a -- we can see Apple is right here. Nice on the $3 average. Right now, it's a little under. It's $1.88. so, if we were to select, this is getting us the average range including gaps. We can see a gap happened today. Price jumped higher. So, this calculation averages the last 14 days and gets us an idea of what kind of range we're dealing with. So, if we were to say -- most people would use a 1.5, a 2, or a 3 times this, in order to then select a price for our stop. There's also another way that we can do this under indicators, which is the average true range percentage. That helps us to normalize. I have Google up here. So, a $2 a day in Apple, certainly if you were to put a $2 stop on Alphabet or Google, again moves about $54 on a regular given day there. So definitely again we want to make sure we're selecting the correct trailing price. The average true

range percentage of course as well will help us if we're choosing the trailing stop loss. We have a trailing stop percentage. Again, 2 percent is the average. So, you would often see somebody say, "Maybe I'll trail by 3 percent, maybe I'll trail by 6 percent. I'll do that times three. That'll give me my price in terms of trailing and allow this to move higher with the stock." Again, too little of this and we get what Matt said earlier, the idea of whipsaw, the idea of this thing can immediately get filled and then we're stuck without the shares and maybe it's moving without us. So, we want to make sure that we're catching the trending market. We're selecting the proper trail amount based off of either our risk criteria, number one over here, or based off of the idea of how much we want to have in terms of stopping out on that position there.

I know we're running up against time here. I do think again important ideas here. You can adjust these in the Trade Armor tool. There are ability of course. If you own the stock you can also go in and adjust this and again see in real time. So again, we know that you may have already had a portfolio full of stocks. So, make sure that you're going in and taking a look at it. On your positions page there is a column for Trade Armor. It'll have a little shield on there. And it'll be lit up if you have an order set up for that price. Again, things that we want to make sure that you can go and spot-check yourself. Make sure that you have again protection on your positions even if the position is well

below. So, I do want to focus here. It does say day order. Make sure again we're covering ourselves in the longer term with something like a good till canceled order. I think again this will help you in terms of your trading strategy going forward.

END OF AUDIO FILE

and external system factors. Trailing stop orders are held on a separate, internal order file, place on a "not held" basis and only monitored between 9:30 AM and 4:00 PM Eastern.

Stop loss orders do not guarantee the execution price you will receive and have additional risks that may be compounded in periods of market volatility. Stop loss orders could be triggered by price swings and could result in an execution well below your trigger price.

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