How to Protect Your Gains in a Bull Market Using Stop Loss Orders

WCCC May 2013
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How to Preserve Your Gains

- Let's say you were invested in the Market
- You now have gains
- How do you protect those gains?

There are several ways you can do it:

(I will only list 3)

1. Sell Your Position Outright
2. Use Options
3. ***Use Stop Loss Orders***

What is the Best Way to Protect Your Gains?

It depends on what phase of the market you are in

Phase of the Market
From Bear to Bull
Bull Market
From Bull to Bear
Bear Market

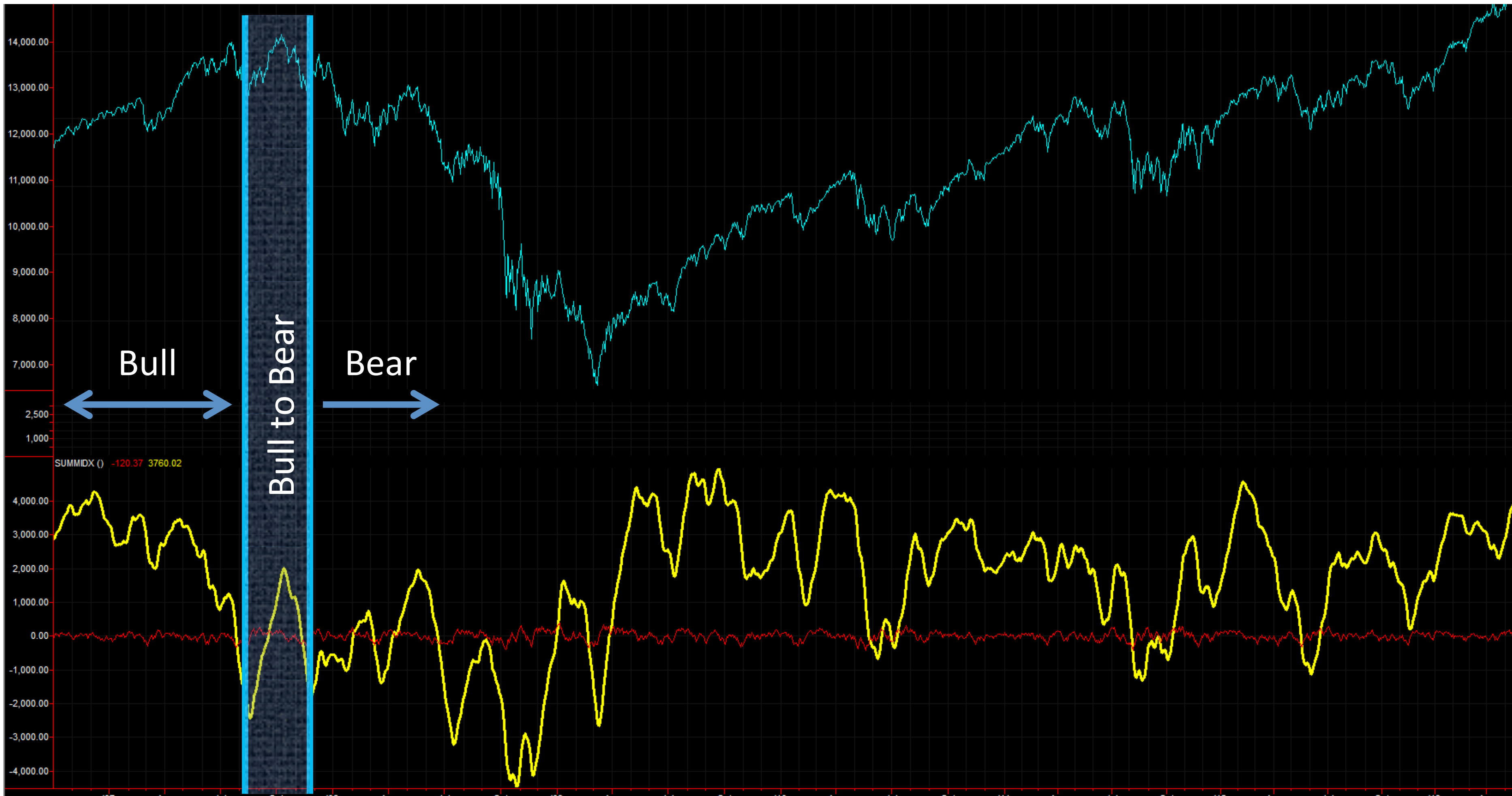
- Your objectives depend on where you decide you are in the cycle
- I believe we are ending the Bull Market Phase
- Why Bull Market…let's go back →

REMEMBER my OBJECTIVE RECTANGLE

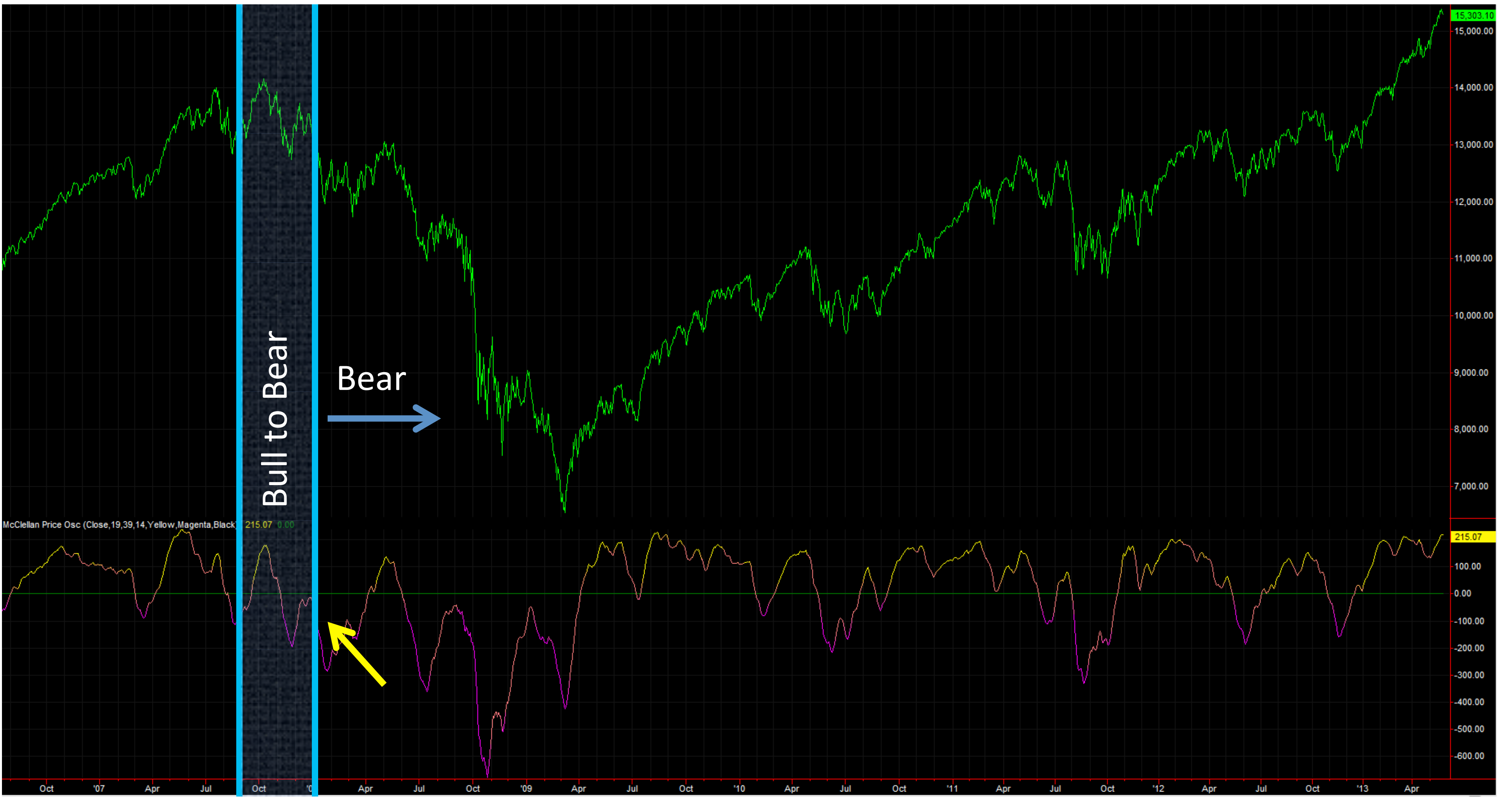
What's Next?
Bull Markets 2003-2007 vs. 2009-2013

*Also...*The McClellan Summation Index

Did not signal the ending of the Bull Market



Side Note… The McClellan Price Oscillator Signal to Indicate Beginning of Bear Market



Objectives in a Bull Market

- The ***objective*** while in a bull market ***is to stay in the market***
  - Missing one uptrend wave would exceed the gains of catching many countertrend waves
- To accomplish this (and still protect ourselves from a market direction shift) we use **<u>STOP LOSS ORDERS</u>**
- In this market phase (Bull) this is the better tool to use (than options and outright selling)
  - Cheaper than using options (like puts)
  - Does not limit upside (like outright selling)

Stop Loss Orders

- A stop loss order will sell a security if the market reaches a certain price
- Stop Loss Orders will allow you to sell very close to your specified price under normal circumstances (but are less reliable in abnormal market conditions)
- That's why they work better with indexes or high liquidity securities
- I use the DJIA derivatives: DIA (ETF) and DDM (2x Leveraged ETF)

Stop Loss Strategy

- The strategy cannot be 100% mechanical
- The strategy is based on judgment (and is therefore imperfect, but it has worked for me so far)
- Technical Tools are used as an aid in the decision making process
- The rules are based on observations of market behavior
- **The goal is not to avoid all down moves, but to sell when the market may have changed its main direction**

The Process

- Monthly Chart
  - Find Lower Bound For Stop
- Weekly Chart
  - Find Lower Bound for Stop (Independent of Monthly Chart)
- Daily Chart
  - Find Upper Bound for Stop
- Review Results and Determine Stop

Examining the Monthly Chart

- The Blue Line is a MA of the highs, The Red Line is a MA of the lows
- The Market is in an accelerated up move (above the Blue Line)
- If the market goes below the low of the previous month I want to get out – So I will not place the STOP below 14,434 (the Lower

Examining the Weekly Chart

- If the Market goes below the low of 2 swings ago, then we want to get out – So the STOP would be below 13,784 (the Lower Bound)
- This is below the 14,434 that was indicated by the analysis on the monthly chart…so we disregard the 13,784 number

Examining the Daily Chart

- We can place the stop at the second swing low (gaps count as a swing) – at 14,687
- The 50-Day Moving Average is at 14,809 (so the stop could be moved above this)
- The Gap is between 14,831 and 15,009 – (The STOP is placed 10pts below the Gap at **14,821**)

Stop on Point & Figure Chart

What's the point?

- If you re-entered the market on 6/8/12 at the price of 12,544 (how to re-enter the market is a separate topic) and follow this strategy, you would still be in the market today
- The Stop on DJIA is placed at 14,821 and, if executed under normal conditions, will produce 19% annualized return.
- If you trade DDM (2 X DJIA), you would enter the market at $63 and, if stopped at current stop of $91, you will have about 47% annualized return.