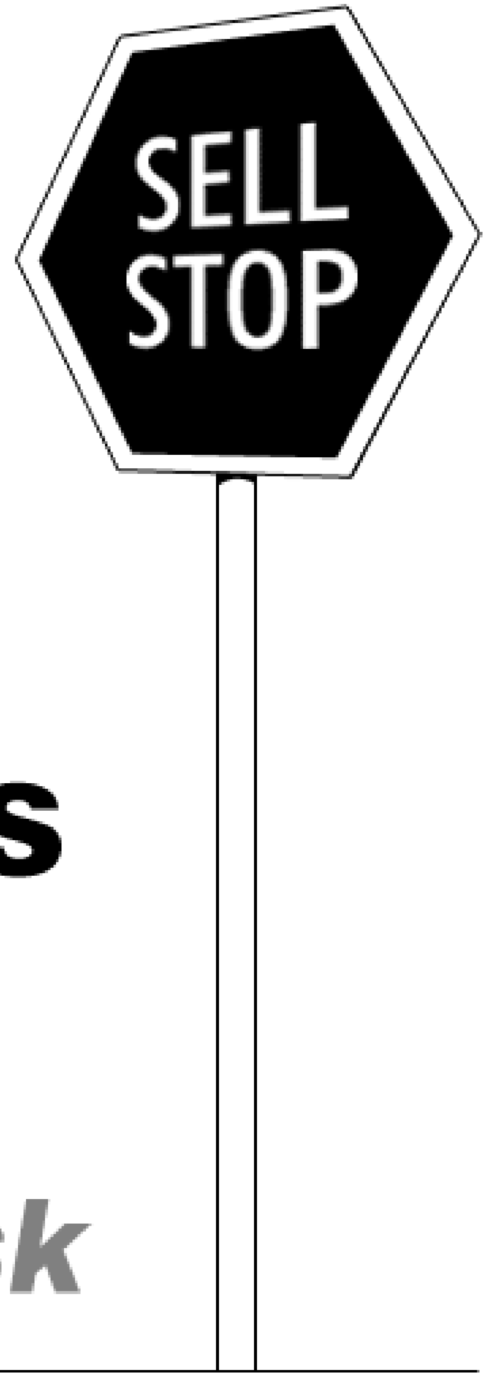
# (Almost) Everything You Wanted To Know About **Sell Stops**

## *...But Were Afraid To Ask*



# Featuring all Blog Posts of
# The ETF Bully (formerly The Wall Street Bully)
# on the topic of Sell Stops



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## About The Author

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He writes a daily blog called the ETF Bully (www.theETFBully.com) and lends a helping hand to investors who are looking to preserve their wealth and capital by using a sensible non-Wall Street approach to better control their financial destiny.

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**Monday, January 18, 2010**

## The Dominator: Sell Stop Or Trend Line?

In regards to last Tuesday's post "You Don't Need A New High," reader Fred was looking for more clarification:

*Since you were on the subject of sell stops today, I have two questions related to it.*

*Do you recommend a single one size fits all sell stop percentage for all sectors, or do you use different percentages for different sectors?*

*Also, at what point would you use, for example - an index (like the Wilshire 5000) moving below its 200 Day MA instead of a sell stop to get out of a position?*

The first part of Fred's question has been discussed many times. I use a 7% trailing sell stop for broadly diversified domestic and international equity funds/ETFs. For more volatile sector and county funds/ETFs, I recommend using 10%.

However, if you were to invest in the W5k via an ETF or a mutual fund, you would not use its own trend line to make a buy/sell decision, but you would use the direction of the domestic TTI.

For example, back on June 3, 2009 when the domestic Buy was generated, you could have taken a position in the W5k. The markets moved higher but corrected in July, but never moved below the TTI's long-term trend line again. That means you would have held on to your position unless your 7% trailing sell stop would have been triggered.

Right now, with the TTI hovering above its long-term trend line by +6.11%, there is mathematically no chance that it will drop below it before the 7% sell stop on the W5k gets triggered.

The TTI is a slow moving indicator, which will always lag the price movements of individual equity funds/ETFs. In other words, the sell stop will be your dominating guide as to when to get out.

**Thursday, January 14, 2010**

## Don’t Get Stuck In A Range

Recently, I had an email exchange with a reader, who misunderstood the exact recommended sell stop figures and used 7.5% for broadly diversified equity mutual funds/ETFs and a range of 10-12% for sector and country ETFs.

There is nothing wrong with using a sell stop percentage that you are comfortable with, such as 7.5%. I know of advisory firms that use 8% straight across the board. All of these different percentages will do the intended job for you, which is to limit losses or to lock in profits once the trend comes to an end.

However, I want to caution against using a range, such as this reader did when applying his 10-12% rule. The reason is that it can lead to wishy-washy decision making.

Here’s what I mean. Say, an ETF has come off its high by -10%, so you decide to hang on and watch it a while longer. It then drops to -11% and you continue holding on; subsequently it slides to -12.5% and you decide to wait a little longer since this number is still fairly close to your maximum of -12%.

You can see where I am going with this. It’s very easy at this point to let emotions control your decision making process and, all of a sudden, you’re down to -14% and still have not sold.

Use a fixed number to determine your exit point, and not a range, which will help you avoid getting stuck with this kind of slippage.

Again, I give myself a little leeway once a sell stop has been triggered. For example, if my intended exit point was set at -7%, and my position closes at -7.15% or so, I will wait a day (sometimes two) to see if the market rebounds before pulling the trigger.

On the other hand, if market activity pushes my holding straight to -8% at the close, I will the sell the next day—no questions asked.

Again, this is not an exact science, but I believe that sticking to a firm number as discussed, will make it easier for you to execute any exit strategy as opposed to being stuck in a range.

**Tuesday, January 12, 2010**

## You Don't Need A New High

Reader Bill was looking for clarification with setting his sell stops as we moved into the New Year. Here's what he said:

*I have all the formulas (for my sell stops) on my spreadsheet so the NOW part updates itself everyday giving me a new GET OUT @ number.*

*My question and I think I already know the answer is:*

*Each year should I start the HIGH and LOW's anew? Or should I just keep them running?*

*I would think just to keep them running.*

Let me make it clear again. Just because we enter a new year does not mean you have to adjust the high points for your sell stops.

The only high price of any importance is the one your fund/ETF has made since you purchased it. While this may coincide with a yearly high, it does not have to.

For example, say you bought an ETF at 10.00. Since that purchase, the price may have gone to 11.00 before slipping back to, say 10.70. The yearly high may have been at 11.75, which does not matter to you at all. In this case, 11.00 becomes the price from which you calculate your trailing sell stop until that price is being taken out.

On a side note, tracking low points has no value when it comes to the use of a stop loss strategy.

**Tuesday, December 29, 2009**

## More On Dividends And Sell Stops

Reader Trevor wants to clarify the adjustments that have to be made to the basis for calculating the sell stop when dividends are a being paid:

*I am a bit confused about the treatment of dividends having read your recent posts.*

*I have set up a spreadsheet as you suggested using Yahoo and downloading each day - one column is the High which I amend manually if a new high is achieved since I bought.*

*If I understand right, it is from this number I deduct the dividend payment. So if the high was a 100.00 and the dividend payment 1.00 then the stop loss would be calculated as 7% off the post dividend high of 99.00. So far so good.*

*What happens if the market keeps rising (as it seems to be at the moment) and a new high of 101 is achieved? Here I assume that the stop loss now moves to 7% off 101 so negating the impact of the dividend payment?*

You are absolutely right. Distributions from dividends and/or capital gains and market activity are two separate things.

In your example, the high price of $100 was correctly reduced by the amount of the dividend of $1 making the new high price $99, from which you now calculate your 7% sell stop. If market activity pushed prices higher, then the highest closing price above $99 becomes your new basis for calculating your stop.

As you pointed out, if prices make a high of $101, then that number serves as the new high point from which you calculate the 7% level, which in this case would be $94 (rounded off).

**Monday, December 28, 2009**

## Distribution Time

It's this time of the year when mutual funds and ETFs declare their year-end distributions. If you use any of the online services like Yahoo, MarketWatch, etc. to track your gains and losses, you have to make adjustments when dividends or distributions become effective.

Otherwise, you may be surprised to see that a fund you are tracking is showing sharply reduced gains or even losses when the NAV is reduced by the amount of the distribution.

More importantly, if you track your trailing sell stops, you need to reduce your "high price" by the distribution as I talked about in "Honing In On Bond Funds And Sell Stops." If you don't, you may get a sell signal when in fact none has occurred.

I have also noticed that some of the historical data providers like YahooFinance have been slow in posting year end distributions. To overcome that problem, be sure to check other resources as well. I did that this weekend and found that Morningstar was far more up to date than Yahoo.

**Thursday, December 10, 2009**

## Sell Stops And Ultra ETFs

In a follow up to yesterday's post, reader Mark had this to say:

*When you use ultra funds or ETFs, what % trailing stop loss do you use to reduce the inevitable whipsaws? 12%, 14% or do you just stick with 7% despite the whipsaws?*

For me, it's not much of a problem since I don't use ultra funds at all in my advisory business. The volatility is simply too high for investors with a moderate risk tolerance, which is the category many fall into.

Sure, you can use the 7% rule, but chances are that you get stopped out quickly. If you are very aggressive, you can double the trailing sell stop to 14%.

Personally, as have posted about before, some of these ultra funds did not always live up their expectations in terms of accomplishing their stated performance objective. Some have underperformed, which means that you took on more risk without the corresponding potential reward.

I think that these types of leveraged ETFs satisfy the gambling instinct some investors possess. As more of these products are being introduced with 3 times and 4 times leverage, or even more, it makes it difficult to apply simple trend tracking rules. Instead, they're promoting nothing but a casino like atmosphere.

**Wednesday, December 02, 2009**

## Getting Squeezed By Low Volume ETFs

I have talked about the importance of only using ETFS with high volume to be sure that you can enter and exit at a moment's notice. One reader had this experience:

*I have a comment and question about the Nov.2 column about sell stops.*

*The comment: I ran into a different kind of problem recently with sell stops. I had bought a relatively low volume ETF (from a sort of tout list, I'm ashamed to say, it looked ok when I researched it--but, since I'm an amateur, I hadn't realized the volume was low.) So when the sell stop kicked in, I was selling and it seemed nobody was buying, the sell price spiked way down before all of the position was liquidated by the automatic sell request. After this, I divided my sell stop into halves for awhile, but this was tedious so I just tried not to buy into a low volume ETF that I'd never really heard of before.*

*Q1: Any comments on my problem? What kind of volume would you consider necessary?*

*Regarding stops:*

*Q2: I wanted to confirm: Are you suggesting to "utilize" a stop in tracking one's holdings, but not place it officially until you use it? Or should you actually have it in place at all time officially with your broker?*

*The reason I like stops is it lowers my stress. I have a tough job and am often on the road where I may not get time to log on every evening. I've tried to do more short-term trades but that doesn't work for me. The stop lets me sleep peacefully.*

For the most part, volume tends to increase with the size of an ETF. Generally speaking, you want an ETF with at least $50 million in assets. If you were to place a $100k order, you'd want average daily volume to be at least $2 million—more would be even better.

A real liquid ETF like QQQQ, for example, currently sports a daily average volume (according to Yahoo) of over $4 billion, which represents almost $99 million shares. Buying or selling millions of dollars of holdings in such a liquid environment is no problem at all, as I have found out in the past.

While not every ETF offers such liquidity, many have average volume in excess of $4 million traded every day, which will be sufficient for most investors.

To confirm your second question, I never enter a sell stop ahead of time. I look at my spreadsheet reflecting the day-ending prices and, if a stop has been triggered, only then will I enter my sell order the next day.

Disclosure: We currently have holdings in QQQQ.

**Monday, November 30, 2009**

## Automating Sell Stops

Reader Joe is trying to use some of the finance.yahoo.com features to make it easier to track his sell stops. He had this to say:

*I have a related question. I too am familiar with finance.yahoo.com. In a blog post a few weeks ago, you stated the user could download information into a spreadsheet and make adjustments from there. I note finance.yahoo.com allows the user to set alerts.*

*Yahoo also maintains daily price history for several years. Wouldn't it be easier, and just as effective, to determine the high price during the user's holding period, determine the stop limit, 6% / 7%, etc. and then set an alert in finance.yahoo.com? Apparently the program sends alerts to the user's email address.*

This can work for you as long as you are aware of a few shortcomings with this approach:

1. When you set the alert price, you need to adjust it whenever the market rallies and your old high price gets taken out. Remember, this is a trailing stop loss point and not a static one.

2. In the case of ETFs, Yahoo's alert will get triggered whenever your alert price is hit, even on an intraday basis. I use only day-ending prices as a basis for my stops.

3. When distributions occur, your trigger prices need to be adjusted to reflect this distribution as I wrote in "Honing In On Bond Funds And Sell Stops."

If you are aware of these shortcomings and can live with them, by all means, use these Yahoo features. While technology is wonderful, it is not perfect, which means you can't count 100% on receiving you email alerts on time.

**Saturday, November 28, 2009**

## Honing In On Bond Funds And Sell Stops

Using sell stops with dividend paying bond funds works the same as with any other equity mutual fund/ETF. Reader Joe had this to say:

*My question today deals with setting stops on junk bond and short term bond funds.*

*A large element of their performance is their dividend, which may be 6 or 7%. How do you account for dividends in setting stops on these types of funds?*

*For example, if the highest price in the period I've held the fund is $10.00, with a 7% stop, it looks like I should sell the fund when it hits 9.30. However, with the dividends going to purchase additional shares, in dollar terms I may be "down" only 4.5 or 5% with the price at 9.30.*

*Any thoughts on this?*

As I mentioned before, whenever a fund/ETF distribution occurs, you need to reduce the high price of your sell stop by the amount of the dividend. As in your example, if your high price is $10.00, and a divided of, say, 0.11 is paid, your new high price becomes 9.89 from which to calculate the 7% trailing stop loss point.

That is not only important for dividend paying bond funds, but also for equity funds, which will all declare their yearend distributions within the next 30 days. To be accurate with your trailing sell stops, you need to reduce your high price by this amount, no matter whether it consists of dividends or capital gains.

**Tuesday, November 24, 2009**

## Learning From Past Mistakes

I have had some interesting email exchanges with reader Tad, who was kind enough to share some of his experiences:

*Yeah, I understand, "analysis paralysis" we used to say. I am a math nut, what can I say.... sorry.... I have managed my own money since 1984 and had done extremely well, until last year. Can't do anything about the past, except learn from it.*

*As to your clarification request. Basically, please correct me if I am wrong, if you have over $500,000, which I do (if I would have been following you instead of Bob Brinker and Ken Heebner), I would have at least 3 times what I do now, but I have seen the light, I hope... you advise to pick 5 to 8 broadly diversified funds, your first buy should be 1/3 of a fund, if it goes up 5% (buy percent), if the trend continues the next day, buy the next third, if that goes up another 5%, if the trend continues the next day, buy the final third.*

*If readers do that and then decide to arbitrarily increase the sell stops, due primarily to higher betas, they are taking on more risk of losing money in those buys. Ergo, to offset that risk, you could increase the 5% above to correlate more with ones increased sell stop. Please see my attached plan. It has evolved and I have made some mistakes, but I am a newbie to your system, and always trying to learn and improve my returns.*

*I strongly believe that eventually all sell stops will hit and I will be in cash again and when I start buying again, I want to have improved. If you have already gone down this path, please let me know. Constantly trying to do better.*

Let me clarify a few items. The incremental buying procedure (1/3 at a time) does not depend on the amount of money you have to invest. To me, it is strictly a reflection of the risk tolerance of an individual.

For example, if you are the aggressive type you can, at the beginning of a buy cycle, allocate 100% of your portfolio. The downside is that, if the market goes against you right away, you lose about 7% using the trailing sell stop discipline.

If that potential loss does not sit well with you, invest only 50%, which reduces the risk to about 3.5% of portfolio. Or, if you are the conservative type, use the incremental buying procedure by starting out with only 33% portfolio exposure, which reduces your potential loss to about 2.5%. That's how you should determine the amount of money you are willing to allocate once a buy is triggered.

No matter where you fit in, you can further reduce risk by using lower beta funds/ ETFs, which will move less than the overall market as measured by the S&P 500. While this will limit upside potential, it will also reduce possible whip-saws when the markets correct.

All these decisions are not a matter of right or wrong but merely one of preference depending on your risk appetite.

And last not least, eventually all sell stops will get triggered and therefore guarantee a move back to money market.

The longer it takes to get there while the trend is up, the more profits will have accumulated. In that case, the sell stop will no longer function as a measure to limit your losses but to lock in your profits. And that's a good thing.

**Wednesday, November 18, 2009**

## Sell Stops And Churning

Reader GH had an interesting comment about the effectiveness of sell stops:

*I'm afraid that the sell-stop methodology is going to become a problem for investors.*

*In my view it is going to start a new trend of "churning." Churning used to exist when an advisor traded a client's account excessively. Now churning is going to define the behavior of the individual investor who is bent on protecting himself, playing defense.*

*Recently, I was speaking with a 40-ish mother of two grown children who remarked that her and her husband were seeing the importance of taking a more hands-on approach to their 401K's. When I mentioned the concept of sell-stops she said her husband had just enrolled in a class that taught sell-stops.*

*That's the point I'm trying to make. Wall Street knows that more and more people are going to use tools like this to protect themselves. And Wall Street knows about 7% to 10% drops trigger stops. Brokerages are going to prosper, at the expense of so-called "investors."*

*The words "investing" and the "stock market" can no longer be used in the same sentence. It's more of a casino than ever before.*

*Your retirement will depend mostly on your savings, not how much you can make on your savings. Wall Street has it figured before you ever get the chance to sell-stop.*

While I agree with your statement that your retirement should depend mainly on your savings, and only secondary on the gains you make from your investments, I don't believe that the use of sell stops will increase the incidents of churning.

Having said that, I have also repeatedly warned against placing sell stops ahead of time (for ETFs), since front running can create this kind of unintended churning as your sell stops are a known fact. I've talked about that in "Front Runners" a couple of weeks ago.

However, if you, as I recommend, base your trailing sell stop points on day-end closing prices for ETFs as well, and only enter the order the following day after your stop has been triggered, you will eliminate advance knowledge of your intentions.

Sure, as is the case with all investment methods and approaches, nothing is perfect and neither are sell stops. However, in my book it's the best thing you can do to protect yourself from portfolio disaster.

Looking back, I did not get the impression that any churning was involved last year, nor did I feel in any way taken advantage of, when we liquidated millions of dollars of positions leading up to our final sell date of 6/23/08.

**Monday, November 16, 2009**

## Digging Into More Sell Stop Details


One reader had this question about the use of sell stops:

*I already own some funds where the most recent high was about 30 days ago and the funds have come down about 2.5 to 4%. If I want to use the 7% trailing stop rule, do I simply take 7% of the high 30 days ago and set that as the stop?*

*And if I buy a fund now, do I still use the most recent high from 30 days ago or just from the price I just purchased the fund? Thank you for you newsletter and blog.*

The base price from which you measure your sell stops is in fact the highest price this fund has reached since you bought it. In your first example, that would be the price from 30 days ago.

However, if you decide to purchase more of this fund now at a lower price, you start all over in terms of finding a new high price for this portion of your holdings. For example, if you buy this fund now at $10 and the price subsequently ends up moving something like 9.90, 10.05, 10.20, 10.40, 10.30, 10.15, etc., then 10.40 would be your new high price to be used as a base for figuring your 7% sell stop (until it is replaced by a new high, of course).

I have never come across this situation, since my preference is to add more positions on the way up, when momentum is in my favor, and not on the way down, when a trend reversal could be in the making. This keeps the same high price high price intact for old and new positions.

**Thursday, November 12, 2009**

## Deploying "Stopped Out" Money

The use of sell stops and re-investing monies you have been stopped out of as the market resumes its upward trend, has been the hot topic of the past few weeks. Reader Paul had this to add:

*A few questions regarding your tactics for reentering the market with "stopped out" money:*

*1. Typically, what kicks off your decision to start reentering the market?*

*2. Do you only enter into funds that have a 0.0 %DD?*

*3. Assuming the trend remains positive, do you give yourself a target deadline for reinvesting all of your "stopped out" money?*

For one, a resumption of upward momentum will always make me realize that I have been whip-sawed and cause me to re-deploy the proceeds such as happened early this week.

Second, depending on your risk aversion, you could wait until the funds/ETFs, you've been stopped out of, take out their old highs before re-entering. Or, you could select different funds/ETFs along the lines as I profiled back in July in "Using The Benefit Of Hindsight."

Third, I don't give myself a deadline for re-investing stopped out money but, if I see a rally building early in the morning, such as we had last Monday, I try to get back in as quickly as I can.

Keep in mind that trying to find a new entry point is not an exact science. You never know for sure if you're making the right move at the right time. The idea is to get back onboard quickly if the trend goes your way. This also means that you need to quickly accept the fact that the stop point may have turned into a whip-saw by not dwelling on it.

That's the moment in time to look at the big picture and remember that you are using stop losses for a reason, which is to limit downside risk.

**Saturday, November 07, 2009**

## How To Track Your Sell Stops

| | | | | |
|---|---|---|---|---|
| XLY | 9:59am ET | 28.005 | ↑0.155 | ↑0.56% |
| AICFX | Nov 5 | 24.86 | ↑0.41 | ↑1.68% |
| PJFAX | Nov 5 | 15.25 | ↑0.26 | ↑1.73% |
| PABGX | Nov 5 | 31.02 | ↑0.58 | ↑1.91% |
| MAIOX | Nov 5 | 10.41 | ↑0.19 | ↑1.86% |
| JIIMX | Nov 5 | 13.21 | ↑0.08 | ↑0.61% |

A convenient and efficient way to track sell stops has been on many readers' minds. Tom had this to say:

*How can I get a fund or ETF price automatically downloaded into my personal investment spreadsheet?*

*Setting sell stops based on new highs, etc. requires finding the price and manually entering it in the spreadsheet everyday. When I don't look every day, I know I miss something.*

*Is this possible without subscribing to some high priced electronic quote system, etc.? (Free is good!) It seems with the tracking you do, there must be an obvious way to do this that I overlook.*

*I have Schwab and Fidelity, but I have not found a way to do this from their websites. There must be some software, program, or website that will pick up this info and put it into a spread sheet on your PC.*

For many years, I have used a simple way to get that task accomplished. I have set up "My Yahoo" as a personalized page to track daily news events. Part of that set up includes a listing of funds/ETFs that I currently own and follow on a daily basis.

The funds/ETFs are listed by ticker, date, price and change for the day as the table above shows. It also includes a feature that lets you export this list to a spreadsheet, neatly arranged in columns to be copied and pasted wherever you like.

In your spreadsheet, you could use Tab1 to paste in all data, as I do, and use Tab2 to have your current holdings listed and formatted. By linking the prices in Tab1 to Tab2, you only need to go though one copy and paste process and your holdings are instantly updated.

Afterwards, I simply view my column titled high price to see if it needs updating, which I do manually. This obviously only comes into play during a market rally when new highs have been made.

Here's what my matrix looks like using an actual purchase and a sell stop that got triggered:

| | Date in | Basis | Price 11/5/2009 | Change | High | Off High | Action |
|---|---|---|---|---|---|---|---|
| QQQQ | 7/17/2009 | 37.47 | 42.35 | +13.02% | 43.31 | -2.22% | Hold |
| ~~UK~~ | ~~7/30/2009~~ | ~~67.3~~ | ~~71.18~~ | +5.77% | ~~77.12~~ | ~~-7.70%~~ | Sold 11/2/09 |

The columns are pretty self explanatory. The "High" column needs to be updated when prices make new highs, while the "Action" column is programmed to alert me to any changes in the status. In other words, when the 7% sell stop level has been broken, the "Hold" switches to "Sell," giving me an easy identifiable alert when looking at a large list of items.

While I use other custom data bases to track these sell stops for a large number of funds/ETFs, this spreadsheet along Yahoo's export feature is simple and effective and requires minimum time on your part once it is set up.

## Sell Stops For All Positions All Of The Time


In response to a recent post, reader Don provided this feedback a week ago:

*This is in response to "How High Can We Go", and the current overbought condition of the market. John Hussman has a superb article on this, which you can read here.*

*The title alone got my attention:*
*The Stock Market Has Never Been This (Intermediate-Term) Overbought.*

*As a result, I've looked over all of my holdings and tightened up my stops, at least to just under the early October lows before we went to new highs.*

*But I have a related thought, for what it's worth. I too have looked at thousands of charts over the last few decades, and have read the key works on charting, and as important as the basic concepts may be, I believe it's essential to allow for the occasional Black Swan.*

*I have seen a handful of charts in my life that are similar to your current TTI index, which were the basis of liquidating my long positions (and even going short in some cases), which were followed by gaps to new highs (above the high point on your chart), which caused devastating losses for my short positions, not to mention a whole lot of wailing and gnashing of teeth over the profits not made on my prior bird in the hand long positions.*

*In terms of how to deal with the current market, instead of just making sure that one has stops in place because it's likely that the market's going to roll over soon,* ***I think one should have stops in place all the time--including, and perhaps especially--in those markets in which it appears least likely that they're going to roll over.***

[My emphasis]

Yes indeed, the article by John Hussman is a worthwhile read.

Take a look at the highlighted sentence again. I want to make sure that there is no misunderstanding. Whenever you initiate *any* position (other than money market), you need to track your trailing sell stops no matter what the appearance of market behavior tells you.

Reader Don seems to imply that he does not have stops in place for those holdings that don't appear likely to roll over, as he puts it. That is not correct. If you are working with sell stops, the rule simply is to "track sell stops for all positions all of the time." Never get caught without one, because you don't know when and where the next shoe will drop.

**Saturday, October 31, 2009**

## Subjective Reasoning

With the market having sold off sharply last Wednesday, several sell stops were triggered causing reader feedback. Here's one comment, which came in Thursday morning as a rebound was underway:

*EWZ has a big rebound from yesterday's sell signal to this morning's 6+% rise. I'm going to hold on to that one. Do you ever change your mind (from strict sell stop discipline) on any like that?*

Absolutely! This is one more reason why I don't ever enter sell stops ahead of time. You have to use some common sense or subjective reasoning, as I like to call it, before putting in your sell orders.

I touched on this before, but here's my process again. After the close of the market on Wednesday, several sell stop points had been reached requiring action the next day. I prepared my sell orders and watched the market opening on Thursday. A rebound was in the making, and the major indexes already had moved up some 0.75% so I held off placing any orders.

As the morning progressed, and the main news of a positive GDP supported accelerating upward momentum, I decided that the odds of a higher close were pretty good.

As a result, none of my planned sell stops were entered. Only time will tell, whether this was a wise decision or not and if indeed this holding back prevented a whip-saw signal.

On the other hand, Thursday's rebound could have been a one-day event, with the markets subsequently trending lower stopping me out a day or two later anyway. So be it. You have to realize that the use sell stops is not an exact science and probably imperfect in many ways.

Still, you need to use them as best as you can, because there is no other way I know of to successfully circumvent severe directional market downturns.

**Thursday, October 29, 2009**

# Heading South


The markets continued to stumble yesterday as downward momentum accelerated.

Much has been written about a potential market top and one of the more interesting observations and references was made by Mish at Global Economic Trends in a post titled "Multi-year Stock Market Top could Be In."

With yesterday's action, several sell stops were triggered, and the affected holdings will be liquidated today. The position of the Trend Tracking Indexes (TTIs) relative to their long-term trend lines is as follows:

Domestic TTI: +7.14%
International TTI: +11.18%
Hedge TTI: +0.54%

Over the past month, continued reader feedback regarding sell stops was a topic of great interest. A few days ago, reader Bob had this to say:

*Market is getting a bit testy right now. I noticed that my holding in Russell 2000 ETF is down 5.69% from its high today.*

*My question is do you recommend using 7% or 10% stop for this type of holding since its Beta is 1.19 compared to S&P 500 per Morningstar?*

*Another though I had was to use a stop of 8.5% (7% x 1.19) to account for its increased volatility. In fact I am considering doing this for all of my holdings. It is easy to do & follow with spreadsheet I have set up. I would probably round all exit calculations to the nearest 0.5% (as I did above) to make it easier to follow in the sell zone.*

While that is a different way of applying the sell discipline, it does not really matter. My preference is to use the 7% rule for all domestic and international funds and 10% for the more volatile country and sector fund arenas.

You should use whatever approach you are most comfortable with. In the bigger scheme of things, using any type of sell stop discipline is better than using none at all. Remaining exposed to the whims of the market place with no clear exit plan has proven to be disastrous in the past and may very well be the downfall for many investors again in the future.

**Wednesday, October 28, 2009**

# Reader Sell Stop Question

As the markets begin to show signs of weakness, questions about the sell stops keep coming in. Here's one from a reader asking for clarification:

*You also suggest selling a fund if it has dropped more than 7%from its most recent high. My question is, if a most recent high occurred in May this year and the fund/ETF is down more than 7% now since May, do you still consider it a sell? What if it was bought since May (maybe shouldn't have)?*

It's not the recent high, or the high since May, that a fund/ETF has made that's important. It's the high that was made since you bought it that counts.

When using a trailing stop loss, which will limit your losses and/or lock in your gains, only the price action, which occurred after your purchase is of any relevance. To be clear, what a fund/ETF has done in the past in terms of price movement maybe a consideration in your selection process, but has nothing to do with the execution of the sell stop discipline.

Once you have made the purchase, only then will the tracking of the closing prices going forward form the basis for your exit points—not before.

**Thursday, October 22, 2009**

# Reader Feedback

Recently, reader Vermcj had some interesting comments regarding sell stops and his experiences. In case you missed it, here's what he said:

*So, I stick with closing prices as the best way, for me, to determine when my sell stops has been hit, even though I don't know of any computer program or brokerage firm+ that will calculate closing prices as daily sell stops.*

*And I believe your financial advisor or you, if you don't have a financial advisor, have to look at your sell stops EVERY day. I believe if you, or if you don't have a fi-*

*nancial advisor like Ulli look at your sell stops every day, or if you do your own trading and don't have enough time to evaluate your sell stops EVERY DAY and make changes in your sell stops, EVERY DAY, then you don't have enough time to be managing your portfolio, because you aren't giving the proper amount of time to properly manage the very basic aspects of it.*

***I believe that poor choices in stocks, ETFs, mutual funds, futures, and options are more forgiving than ignoring stop sells.***

[My emphasis]

I agree. It's important that you track your sell stops on a daily basis, especially if the market heads higher so that you can capture the new high price of your holdings. This new high price will form the basis for calculating the 7% trailing stop loss. On minor pullbacks, you can check price action, but there will be nothing else to do.

If you set up your tracking on a spreadsheet, this should take no more than a few minutes a day.

Look at the highlighted sentence above. I agree wholeheartedly that a poor selection of funds/ETFs is more forgiving than ignoring sell stops. The reason is obvious: A poorly selected fund may turn out to be a lagging performer, while not paying attention to sell stops can ruin years of investing.

That's the lesson of 2008. Unfortunately, millions of investors had to learn this fact the hard way.

**Wednesday, October 21, 2009**

## Disagreement

Yesterday's post about a different type of sell stop generated some reader feedback. As always, I appreciate the commentary; although I don't necessarily agree with all opinions.

Here's one comment that I feel needs clarification:

*Something that you definitely are missing when talking about trailing stops is the Market trend.*

*If the Market indicators are Bullish, one really should think twice about selling an ETF/Mutual fund on a 7 percent down turn. Had I not used common sense and not sold my ETFs/Mutual funds on a 7 percent down turn, I would have missed out on the 50 percent bull Market run over the last 7 months. I believe you have also advocated using common sense/intuition before selling mutual funds/ETFs.*

The reason to use trend tracking along with trailing sell stops in the first place is to have a clear cut plan in place in order to avoid emotional decision making and to control downside risk.

If what you are describing works for you, fine, but it may not work for others. Introducing another subjective variable, such as the identification of the market trend (however you want to define it), causes additional decision making and confusion.

To be clear, when a trend for an ETF/Mutual fund ends, reverses and triggers my trailing sell stop, we get out. At that moment, however, we have a plan in place as to what will have to happen in the market in order for us to re-enter. If you don't have such a plan, yes, then you will miss out on the potential upside.

2008 was a perfect example in that by most measures the market was still in an uptrend when we moved to the sidelines on 6/23/08. My preference is to act immediately when the signal gets triggered and ask questions later.

As I have often commented, being disciplined and exact with the execution will lead to whip-saws from time to time. That's the price we simply pay to be sure we avoid the big drops in the market whenever they happen.

Since you apparently use a sell stop along with an analysis of the market trend, I'd be curious to know when you got out last year and when you re-entered this year.

My philosophy over the past 20 years has been to keep things consistent, effective and simple without any attempt of curve fitting my approach to current market conditions.

**Tuesday, October 20, 2009**

## A Different Sell Stop

Discussing the sell stop strategy has been the hot topic over the past few weeks and for good reasons. It's one of the most important aspects of keeping your portfolio intact when the trend reverses.

There is not just one way to use sell stops as reader SS commented:

*I disagree to an extent. If you have a diversified equity mutual fund portfolio, there is no reason why you can't just have a trailing stop on the entire portfolio.*

*It's easy to track which funds are doing well vs. their category and which classes are doing well overall. If one is really underperforming you can just swap it for something that's better. It really depends on your philosophy.*

*You can use the S&P as you gauge if you'd like. The S&P high is 1072 ytd...if you use 10% of that high, or whatever becomes the high, as your trigger to exit.... you know at what point there are probably some fundamental issues in the economy and you should likely get out. The caution is be careful about setting a trigger too low. The market could drop off 6-7% and still be fundamentally sound. And you don't want to be in and out of the market needlessly. The best thing is this alternative is much less labor intensive than tracking every fund.. for both clients and advisors:)*

To each his own. Using the S&P as a gauge for setting sell stops can be a dangerous game. Why? For the simple reason that it may drop at a slower pace than your portfolio, which, as a consequence, may lose more than your intended percentage.

Again, there are many ways to work with sell stops. You need to find the one approach that you are most comfortable with. Looking at the big picture, any type of sell stop will be better for your financial health than none at all.

**Tuesday, October 13, 2009**

# Made It

I finally made it over the big water hazard and arrived safely in Germany. As usual, jet lag will be my companion for a few days, and the 9-hour time difference is challenging at times when trying to get things done. So bear with me, if my email responses are a day late.

Reader Leon had a follow up comment on the sell stop discussions of the past few weeks. Here's what he said:

*Thanks very much for your timely and insightful comments and services. I enjoy reading your comments. We are in agreement on many things.*

*I'm on the Institutional side of Schwab as you are. In your comments, you have addressed trailing stops many times and I agree with their use--however, Schwab Institutional doesn't offer trailing stops. In lieu of not having trailing stops, I have to key them in and then adjust frequently or use mental stops. How do you deal with this situation?*

As I have commented before, whether a custodian offers pre-set sell stops or not makes no difference to me. I track them separately on a spreadsheet and, only once they are triggered, will I place the order the next morning. There are 2 reasons for this:

1. Since I only work with day-ending prices for sell stops, there is no need to enter them prematurely.

2. You are not subjected to intra-day market noise that may not have any bearing on long-term market direction.

In other words, whether I buy mutual funds or ETFs, only the closing prices will be considered when making sell stop decisions.

**Saturday, October 10, 2009**

# Sell Stops For Hedges

Reader comments are an important component of my daily blog posts. They add valuable information to the topic discussed and many times lead to more posts on related issues.

Some readers prefer to comment anonymously, which I don't have a problem with unless this privilege is abused. This happened a few days ago when one reader addressed an issue in a way that should have been emailed to me directly for clarification. Naturally, his comment did not get published; however, he brought up a valid point, which I want to address today.

The issue most discussed over the past couple of weeks was the use of sell stops for ETFs, mutual funds and bond funds. But how about hedges? How are sell stops applied there?

Let's review again the purpose of the hedge:

*It allows us to safely establish a position "prior" to our domestic TTI signaling a Buy.*

After the markets made their lows the beginning of March 09, we were able to set up a hedge during March even though our domestic TTI did not signal a Buy until June 3, 2009.

Let's see how this hedge actually played out over the past few months and where the sell stop should be placed. Take a look at this tracking matrix for this particular hedge, which was set up for a number of clients:

| Domestic Client Hedge: Tracking | | | 3/25/2009 | | 10/8/2009 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Sh's | Purchased | Basis | Price | | G/L in % | G/L in $s | G/L in % | Action |
| Short | 1,681,393 | 21687 | 3/25/2009 | 77.53 | 55.71 | | -28.14% | -473210 | | |
| Long1 | 838,000 | 30506 | 3/25/2009 | 27.47 | 41.09 | | +49.58% | 415492 | | |
| Long2 | 837,986 | 51505 | 3/25/2009 | 16.27 | 21.68 | | +33.25% | 278642 | | |
| | 3,357,379 | | | | | | | | | |
| Dividends: | | | | | | | | | | |
| Long1 | 0.154 | 30506 | 6/23/2009 | | | | | 4698 | | |
| | | | | | | Net Hedge: | ------------> | 225621 | 6.72% | Hold |
| S&P 500 | | | 3/25/2009 | 814 | 1,065 | | +30.89% | | | |
| Total Current Value | 3,578,303 | | | | | | | | High | Low |
| Total Long Value | 2,370,120 | 66% | | | | | | | 6.75% | -1.32% |
| Total Short Value | 1,208,183 | 34% | | | | | | | 9/16/09 | 3/30/09 |

As you can see, during this bullish run, the short position lost 28.14%, but the long positions gained more resulting in an unrealized gain of 6.72%. The 7% sell stop will be implemented on the result of the entire hedge and not on the performance of its components.

In other words, the high gain made on 9/16/09 was +6.75% and the 7% sell stop loss will be calculated off that high number.

While this hedge averaged about 1% per month, this certainly pales in comparison with the S&P's +30.89%. On the other hand, the S&P's numbers are more of a statistical measure than anything else, because most investors certainly did not get into the market with a meaningful portion of their portfolios back in March.

As the markets confirmed their bullish trend, I dropped many (not all) of the short components for clients' accounts in order to become net long and add to the positions. That choice strictly depended on the risk profile of the individual client.

Remember, this hedge concept may not be for you, but there are many investors who have had either very bad buy-and-hold experiences and/or are retired and prefer less of a roller coaster way of investing their monies.

I have always maintained that the comfort level an investor has with an investment methodology is far more important than the investment itself.

**Thursday, October 8, 2009**

## Exiting The Market: Sell Stop Vs. Trend Line Break

Reader Tom had the following question in regards to exiting the market:

*I had some time to kill so I did a spread sheet on my brokerage results and found something interesting that raised a question.*

*Assuming the TTI tells us to hold, but we have a trailing 7 percent Stop Loss set..... would we be better off holding until the TTI signals a sell...or letting the Stop Loss get us out BEFORE the TTI indicates is time to bail out?*

*If you look at the spread sheet you can see that the July positions I was in stopped out but the TTI said "hold"....I would have been better off ignoring the Stop as you can see from today's price points on the ETFs that were sold.*

That's a very good question. The reason for the trailing sell stop is that the TTI can move substantially above its long term trend line. Right now, it is positioned 9.07% above it. The TTI by nature is a slow moving indicator whether the market is rallying or retreating.

If you were to wait until the TTI breaks through its long-term trend line on the way down, you would give up too much profit until the sell signal kicks in. Even worse, by waiting that long, you could possibly turn a winning position into a losing one.

The alternative to avoiding that scenario is the use of the trailing sell stop. It will from time to time, as you have experienced, give you a whip-saw signal, which will cause you to have to find a new entry point if the markets head back up.

There is no way that this can be avoided (unless you buy and hold), so look at whip-saws as simply insurance, which will protect your portfolio from possible market disaster.

**Tuesday, October 06, 2009**

## Reader Q + A: Exit Strategy

Reader Bill had this question regarding our sell strategy:

*I have my IRA diversified among seven T. Rowe Price funds. Do I apply an exit strategy to each separate fund---or use one fund (i.e: Equity Income)?*

*Where do you suggest I put the money from the exit strategy in this environment?*

Yes, you will have to track the trailing sell stop points for each fund separately, since they obviously fluctuate to different degrees. Some may hold up better than others so each needs to be followed based on its own merit.

While the markets have pulled back recently, no sell stops have been triggered yet. However, if that should occur, I always move to the safety of the money market funds first.

That allows me to observe market behavior unemotionally and evaluate if this was simply a whip-saw or an actual trend reversal. At the same time, I will consult the weekly StatSheet to see if any other area is moving to the upside.

Chances are there will be hardly any, since all world markets are so intertwined that they pretty much move in tandem but to varying degrees.

If the markets head further south, I'm glad I'm out; if they reverse and head up again, I may re-enter using some of my previously held positions (or new ones) once the old highs have been taken out. That confirms to me that the trend is back on track and warrants exposure again.

Keep in mind that this is not an exact science, but merely a focused effort to keep out of harms way should the markets head south again in a big way a la 2008.

**Monday, October 05, 2009**

## Sell Stops And Bond Funds

Sell stops were the main topic of the past couple of weeks as readers provided valuable feedback and asked for clarification.

Here are a couple more comments:

*I learned from you that the trailing stop loss is usually 7% I do hold TIP (ETF). Does the same 7% hold for bond funds as well or should it be a lesser amount?*

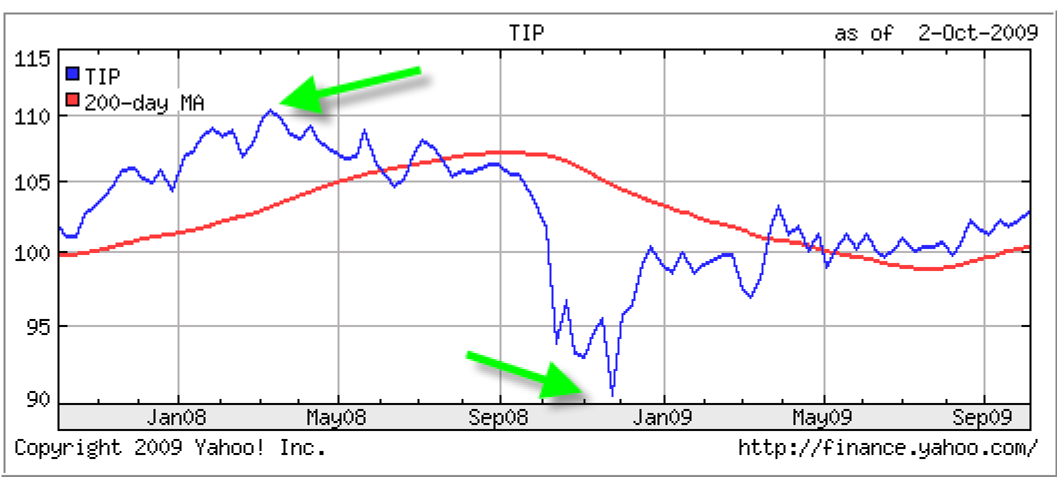
With bond funds being (in general) less volatile than stock funds, you can adjust the trailing top loss to some degree, maybe to the 4%-5% level; if you are more comfortable with that.

Personally, I have not held bond funds long enough to see if that makes much of a difference. The key is to have some exit point in place just in case this arena goes haywire.

One reader disagrees and had this to say:

*I consider TIPs to be held and not sold under any condition for a retiree's portfolio. I hold both the ETF and individual bonds.*

While you certainly can hold individual bonds for their duration, I don't recommend that for any bond funds. In times of turmoil, bond funds can drop sharply as we've seen last year. Take a look at the chart for TIP:




From peak to trough, the drop was about 18%. Of course, with the benefit of hindsight, it does not seem such a big deal. But, while the price of TIP was approaching the $90 level in November of 2008, I'm sure that many investors were worried about further deterioration.

Unfortunately, we are living in an environment were anything can happen as far as investments is concerned. Last year should have taught everyone that lesson.

As the reader above stated "*I consider TIPs to be held and not sold under any condition for a retiree's portfolio*," I disagree and will have to take the opposite stance by saying that "*there is no investment which should be held without an exit strategy*."

**Saturday, September 26, 2009**

## Sell Stops For Ultra ETFs

For most of the past week, I have discussed sells stops and responded to various reader questions. Here's David's comment:

*I enjoy reading your blog and have three ETF questions for you.*

*I got totally out of the market before it hit bottom. As the market began to recover I began reinvesting a set amount each month in three ultra ETFs: QLD, UWM and UYD. Needless to say the results have been spectacular so far. My questions are:*

*1. Since these funds are twice as volatile as the indexes they track, should my stops be 7% or 14%? (At this point I would make over 35% on all three at 14%).*
*2. Since I invested in several lots should I sell all at my stop point or have several different stops, perhaps tied somehow to the price of each lot and number of shares?*
*3. If your answer to question 2 is sell all and I get whip-sawed, should I get back in incrementally when a new high is reached or reinvest the entire amount from the stop sale and then get back on my monthly investment program?*

I do not use Ultra ETFs personally or in my advisor practice. The reason is the added volatility, which makes it more difficult to apply the concept of trend tracking along with trailing sell stops. However, since you asked, here's my response to your questions:

1. You have a nice profit built up and are obviously aware that it can evaporate in a hurry if the market turns. A common belief says that the higher your unrealized gains, the further back you can trail your stop loss points. That may apply to some but not to others. Your risk tolerance definitely comes into play here. If you're comfortable giving up 14%, then that's what you should do. If not, use 7%; you only can make that decision.

2. Since all of your positions have rallied, there is only one high price from which to measure the drawdown to your eventual sell point. When a sell stop gets triggered,

I liquidate all holdings of that ETF.

3. Since you are using leveraged ETFs, I personally would use the incremental buying process and ease back into the market in 1/3 increments or whatever percentage you are comfortable with.

You have experienced how leverage can work in your favor. Do not become complacent thinking it will always work this way, because it won't. Nevertheless, you took advantage by using the tools available to maximize your returns during this bullish rebound. Congratulations!

**Monday, September 21, 2009**

## Sell Stops And Mutual Funds

Last week's discussion about sell stops, whip-saws and distributions generated a lot of reader feedback. As I said, most of these issues have been covered before, but they are important and worth repeating so that new readers get the benefit as well.

Reader MD had this to say:

*A 'Sell stop' is an excellent vehicle to hedge your portfolio of equities. But, what about 'Mutual funds'? How can we use a strategy like 'Sell stops' with mutual funds??*

Remember what I said about ETFs? My sell stops are based on "day-ending prices" only, so what happens during the day is immaterial to me. One reader called the intraday market activity casino mentality, and I have to agree to some extent.

I treat sell stops for mutual funds and ETFs exactly the same. If a sell stop has been triggered for either, based on the day's closing price, only then I will enter the order to sell the next day.

I never ever enter stops beforehand to avoid getting stopped out during intra-day market swings.

I realize that waiting with your sell order until the next morning might interfere with your work schedule, but the markets are open for many hours. With online trading even being available on your cell phone, you should be able to find a few minutes to place your trades.

**Wednesday, September 16, 2009**

# Distributions And Sell Stops

Reader Tad made an important comment in regards to yesterday's post. Here's what he said:

*I think you should make your readers aware of what happens to the NAV price when dividends and/or capital gains are paid out of a fund, as this might trigger an unwarranted trailing stop loss sale.*

That is correct. When mutual funds/ETFs declare distributions, you have to adjust your high price, which is used to track the trailing sell stop point.

For example, let's say you bought an ETF at $10. The markets meander but with an upward bias, and your holding hits a high price (since you purchased it) of $10.50. This figure becomes the point from which you measure the 7% stop loss.

If this fund now has a distribution of, say $0.20, the daily price (NAV) is reduced by that amount. If you are not aware of this, this may possibly trigger a sell signal, unless you adjust your high price downward as well. In this example, the high price was $10.50, which needs to be adjusted to $10.30.

Whenever you see a large price change in any of your holdings, be sure to check that it was related to market activity and not due to any distribution. Being aware of it, will help you make the right decision when it comes to liquidating your holdings.

**Tuesday, September 15, 2009**

# Revisiting Sell Stops Again

Implementing the trailing sell stop strategy is imperative to your portfolio surviving treacherous times as this century has shown.

Even though it has been discussed before, new readers may bring up old questions, but they are nevertheless important to be reviewed again. Here's the latest one:

*Sorry for a potentially dumb question, but do you know if trailing stops are commonly provided by the big names? I cannot seem to find it with Vanguard, but it seems* *to be there for Fidelity. Should I do my best with an excel sheet if I do not have the option available at one?*

Actually, this is not a dumb question at all. It simply shows that you are seeing the wisdom of using stops and are trying to find a way to apply them with your existing custodians.

As you know, there is no way to place stops for mutual fund holdings. You need to track the highs your funds have made since you have purchased them on a spreadsheet and update the prices daily. That's what I do.

For ETFs, you can place orders for sell stops with any of the large brokerage houses. However, I do not recommend you do that, because intra-day market activity might stop you out and prices may subsequently rally.

In that respect, I treat mutual funds and ETFs alike. I track the day-ending prices on a spreadsheet and, if a sell stop has been triggered on that basis, only then do I enter the order the next trading day.

For domestic and widely diversified international funds/ETFs, I use 7%; for more volatile sector and country funds/ETFs, I use 10%.

The question in your mind might be when do I exactly pull the trigger? Right at 7%, or at 7.1%, or do I wait until 7.5%? That's where a little bit of subjectivity comes into play.

Say, a domestic ETF closes off its high by 7.1%. Do I sell the next day? No, I personally like to see a clear piercing of the 7% level. For example, if the markets drop sharply that day and this ETF closes down -8%, I will place my sell order the next day.

If it closes down -7.1% or so, I might wait another day to see if the market rebounds. If it does, I patiently wait. If it does not, and the next day we're heading towards -8%, I will liquidate. It all depends on your risk tolerance; only you can make that decision.

**Wednesday, July 01, 2009**

## Living With A Sell Stop

With the international markets having come off their highs, after racing out of the gate following our Buy signal on May 11, 2009, many readers have been stopped out of their positions and are looking for a new entry point.

Reader Dave had this to say:

*I thoroughly enjoy reading your daily blog. I am convinced that your method is far superior to buy and hold but seem to have stumbled out of the gate and would appreciate some help in a couple of areas.*

*On the first day you gave the buy signal for international and domestic funds I purchased funds from your list. I recently hit my 7% stop loss for domestic and 10% for international funds for a loss. Please provide some comments on the following:*

*1. Should I pick additional funds and re-enter now or wait?*
*2. Any additional comments on which funds to pick would be appreciated.*
*3. Comments on how to set stop losses...7%, 10 %, etc.*

*I am 54, have suffered through the buy and hold of the early 2000s and 2008.*

Dave brings up some good points that are worthy of further examination.

First, let me make it clear that, once a sell stop has been executed, you will find yourself in no-man's-land. If the markets head further south, you'll feel like a hero in that you made the right decision. If, on the other hand, the markets remain stable, or start to move back up, you may question the wisdom of your choice.

No matter what you do, you need to simply accept the fact that there is no perfect solution to this dilemma. You made the right decision by controlling the downside risk, and you now can either stay on the sidelines or try to find a new entry point.

You are not alone; this happened to me in my advisor practice as well. However, jumping back in, just because the markets moved a couple of percent, may not be the right choice.

While there are probably several options, let me share with you what my process of re-entering consists of. Before establishing a new position, I want to make sure that whatever trend is in place is sustainable.

Say I bought an ETF at $40 and it made a high of $44, before retreating and stopping me out at around $40.50. That leaves me with a slight gain. The markets bob and weave, and this ETF now hovers around the $41.50 level. Should I buy in or not?

Personally, that is not enough confirmation for me to believe that the trend has continued. If I like this particular ETF, and want to reinvest in it, I want to see the old high of $44 taken out before pulling the trigger and establishing a new position.

While this goes against conventional wisdom, I am more comfortable jumping aboard once momentum is accelerating and that means a break out to the upside.

Keep in mind that this is in no way an exact science but merely my way of trying to avoid another whip-saw by letting the market show me the way. If this ETF makes new highs, that to me confirms a resumption of the uptrend. If it doesn't, I am glad I stayed on the sidelines.

**Monday, June 08, 2009**

## On Sell Stops and Whip-Saws

While I have discussed the use of sell stops and occasional whip-saws on several occasions, reader William had this to say:

*I am following your guidelines and have started to cautiously invest a small portion of some of my IRA in some ETFs. I am putting a 7% trailing loss on them. Let's assume that my fund loses 7% of its value from its high, and we are still over the trend line and the market then starts going up again. I have sold the fund, what do I do with the money? Buy a different fund, reinvest it in the fund (at what point)?*

*Or is this a scenario that won't happen realistically? Also, another scenario is that we are under the trend line when my 7% trailing sell stop hits. I then reinvest when it goes back over the trend line, right. This could happen multiple times so I could loose up to 7% of 1/3 of my portfolio, then up to 7% of 1/3 of what is left of that etc. That starts adding up to real money real fast. I guess that we hope that out fund goes up at least 7% after we buy it so we at least sell at a neutral.*

*I hope this market finds real direction!*

While all these things you describe can happen, they usually don't. There are some precautions I take to minimize the possibility of a whip-saw signal. For one, I don't jump in the market the moment one of the Trend Tracking Indexes (TTIs) crosses its long term trend line.

I want to make sure that the trend line is clearly penetrated by +1% as well as by waiting a few days to make sure the TTI remains above it.

For example, when the international TTI generated a Buy on 5/11/09, it had fulfilled those requirements before I actually pulled the trigger. We allocated 1/3 of portfolio value, and our positions subsequently gained over 8% before coming off their highs by -4.16%. This means if I implement the sell stop after a drop from the high of 7%, I will come out ahead by +1% or thereabouts.

The domestic TTI generated a new Buy signal on 6/3/09. If you missed that exact entry point, it's no big deal yet since the market has not moved much, and you can enter at a later time.

As I've said repeatedly, missing a buy signal is not as crucial as neglecting a sell signal. The former will only cost you potential profits, while the latter can have a serious impact on your portfolio.

If you get stopped out at the worst point with a 7% loss that means, if you had only 1/3 of your portfolio invested, the impact on the total would be -2.33%, which is reasonable. Even if that happened 3 times in a row (unlikely, but possible), you will have lost 7% of your total portfolio. While you may not like it, it sure beats the alternative, which many investors experienced in 2008.

Once you're back on the sidelines, the proceeds should be in money market. If the market stages a recovery, and the trend line is crossed again to the upside, repeat the process.

If you been stopped out prior, and the market turns on you and resumes the up trend, you have a decision to make in respect to re-entry. If I liked the fund/ETF I had chosen, I re-establish my position after the old high has been taken out. Remember, the idea of following trends is to be onboard when the trend is intact and not try to bottom fish when things head south.

Above all, you need to keep in mind that this is not an exact science or an engineering problem to which there is only one correct solution.

At major inflection points, when trends change, the danger exists that whip-saws will become part of the equation. Investing always involves an element of risk no matter what you do, but I have found that these ideas are suitable for most investors, because they contain a blue print to follow, although it may be far from being perfect.

**Monday, June 01, 2009**

# Sell Stops Revisited

Trailing sells stops are an important part of trend tracking in order to protect capital by guarding against vicious long-term trend changes such as we've seen last year.

Common sense would dictate that any investment approach should incorporate some kind of an exit strategy but, unfortunately, most investors and advisors have not caught on to that simple bit of investment wisdom.

From time to time, readers email me with comments on the implementation of sell stops. Let's take a look at what Paul had to say:

*I'd appreciate (and perhaps other readers as well) your expanding on the use of stops. I currently put them in place on any position with an ETF or stock since I cannot watch the market. Have you done any testing (like with your hedging strategy) that indicates using end-of-day close and some type of exit the following day is better than keeping a stop order on the books?*

The idea is to follow the signals as they occur. I treat ETFs the same way as I do mutual funds in that I base my sell decisions on day-ending closing prices only. Intraday volatility can otherwise stop you out prematurely. This is not an exact science, nor a matter of right or wrong, but simply one of preference.

When a closing price hovers around a sell stop point, I may give it another day to see if the trend moves back up or if it clearly pierces my intended stop point to the downside. In other words, I am introducing a little bit of subjectivity to avoid a possible whip-saw.

Another reader commented as follows:

*I appreciate your thoughts on exit strategies. Being at work during market hours, I've often relied on sell stops, which I reset based on closing prices. Granted, they've sometimes thrown me out of positions at inopportune times, but they've also saved some profits and limited some losses.*

*If I switched to alerts and submitted market sell orders before the next opening bell, the opening volatility could hurt since I couldn't be sure what price my shares would bring. It's too bad that I can't delay submitting morning trades until the market has opened and settled down.*

Again, when a sell stop has clearly been triggered, the goal is to follow it and get out of the market. It does not matter whether there is opening price volatility or not; there is no need for you to attempt to do some scalping in order to save a few dollars.

Keep the big picture in mind, which is to follow long-term trends until they end. When markets reverse direction, you'll never know ahead of time whether that reversal can turn into a disaster with lightening speed such as it did last year.

On the other hand, a whip-saw signal is always a possibility. However, I consider such an event as simply cheap insurance to guard against major portfolio destruction such as we've seen in 2008.

**Monday, May 11, 2009**

# Investment Insurance

In my last two posts, I talked about investment choices and the importance of using a sell stop discipline.

When you work with a trailing sell stop, you have to accept the fact that an occasional whip-saw signal will become part of your investment life whether you like it or not.

Taxxcpa had this comment:

*A whipsaw possibility is like the cost of insurance. The cost of a couple of whipsaw losses is not too big a price to pay and you should recoup those losses when the trend does not end with a whipsaw and keeps moving up.*

*Even if this is a bear market rally, there is room for profit if the rally continues until the next sell signal is at a higher level than when the buy signal occurred.*

That's exactly my point. In most areas of your life, you have insurance in place to cover catastrophic events. You pay for this peace of mind whether these events occur or not.

The equivalent in investing is the small cost associated with an occasional whip-saw. However, this requires two things on your part:

1. Have a disciplined investment strategy in place with clearly defined entry and exit points.

2. Check your ego at the door by admitting that an investment decision may have been wrong (or too early) and execute your sell strategy before a small loss turns into a big one.

Millions of investors could have avoided portfolio disaster year, if they had acted on these two simple ideas.

History tends to repeat itself. If you did not heed these warnings last year and paid the price for ignorance, make sure that you are better prepared next time the bear makes an appearance.

**Monday, April 06, 2009**

# The Flattening Trend Line—Part II

Yesterday, I talked about the flattening of the trend line and its potential effect on a buy signal. Today, let's look at a historical chart of the domestic Trend Tracking Index (TTI) to determine if a rising trend line should you keep you in the market, even though our trading rules signal a 'Sell.'

Take a look at the graph below, which shows the price action along with our 'Buy' and 'Sell' signals over the past 6 years:

There were 4 sell signals identified by the large red arrows. You can look at each one of them and note that the trend line was still rising when the 'Sell' occurred. The first 3 ended up to be whip-saws as the markets subsequently resumed their long-term upward trend.

Here's where percentages can get you into trouble. If you were to conclude that 75% of the time a rising trend line renders a sell signal invalid, then you would be right—until you're wrong. This is where the magnitude factor kicks in. Had you made the decision to stay in the market and ignore the 'Sell' on 6/23/08 as well, your portfolio would be in the same shape as that of the buy-and-hold crowd.

Three times you would have been right over 6 years by avoiding a whip-saw, but the fourth time you would have gotten clobbered.

My experience from following these trends for over 20 years simply tells me that you can never be sure. I have learned that it is better to live with an occasional whip-saw than to arbitrarily use rising or falling trend lines to fine tune my decisions.

The simplicity of following all buy and sell signals regardless of outcome is what will keep you consistently on the right side of the long-term trend; even though at the time it may not always seem that way.

If you adopt the long-term view, as I tried to by using these occurrences over a 6-year period, you may find these whip-saws to be nothing more than a necessary evil on your way to safely avoiding bear market disasters.

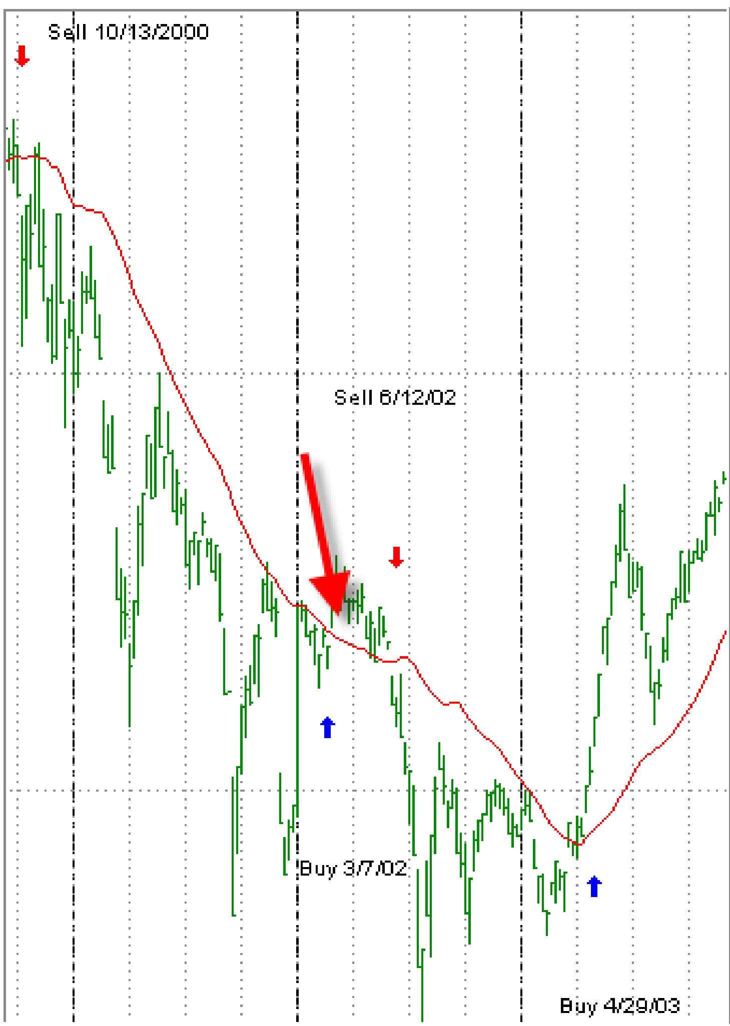
**Sunday, April 05, 2009**

# The Flattening Trend Line—Part I

One (anonymous) reader pointed to a CNBC video featuring a short presentation about a "flattening trend line." Take a look but disregard the useless chatter afterwards:

While I don't use the 150-day moving average as shown in this demonstration, this nevertheless poses an interesting question. Does entering the market (using our entry rules), after the trend line of the Trend Tracking Index (TTI) has flattened, enhance the chances of success?

In other words, are the odds of the price trend continuing to the upside greater when a trend line has flattened as opposed to getting a buy signal while it is still falling?




To find an answer, I had to look back to the last bear market of 2000, where our sell signal kept us out of domestic equities from 10/13/2000 until 4/29/2003. However, that time frame was interrupted by a short whip-saw period (which was long enough to result in a profit) from 3/7/02 until 6/12/02. Take a look at that enlarged portion of the chart:

As you can clearly see, the trend line (red) was still descending as the 'Buy' on 3/7/02 was generated. At the moment the 'Sell' was triggered on 6/12/02, it had actually turned up slightly.

Since this is the only example I could find, it certainly is not conclusive to say that buy signals, while the trend line is still descending, will always lead to whip saws.

To gain more insight, let's look at the opposite tomorrow: The effect of selling when the trend line is still rising. Maybe that will lead us to a better conclusion.

**Saturday, February 21, 2009**

# The Value Of Selling

In regards to my recent post "7 Years Of Wealth Wiped Out," reader VR had this comment:

*It's almost funny when I try to talk people out of buy-and-hold strategy and point them to your blog for market-timing. Everyone is afraid of missing out on a big rally. They don't really mind losing more than 50% of their investment to a bear. The worst is that no one believes that the market could go further down from this level.*

It's hard for me to believe that anyone would be more concerned about missing out on a rally than protecting himself from downside losses. I suppose that old habits die hard because the buy and hold proponents have done a great job of brainwashing the public for a long time.

However, numerical facts, which most don't bother to look at, show a different picture. You most certainly remember the last bear market of 2000, the brunt of which we avoided by selling on 10/13/2000. On that date, the S&P 500 stood at 1,374. Two days ago, it closed at 779, which is a loss of about 43% over some 8-1/2 years.

Since most investors and professionals alike are desperately trying to beat the S&P 500 performance, and most fail to do so, many portfolios have done worse. Looking it another way, year over year, this century has not been kind to the buy-and-hold investor as the following chart shows:

| Year | S&P 500 | Value |
|---|---|---|
| 2001 | -13.03% | 87,163 |
| 2002 | -23.34% | 66,819 |
| 2003 | 26.39% | 84,453 |
| 2004 | 8.99% | 92,045 |
| 2005 | 2.97% | 94,779 |
| 2006 | 13.62% | 107,687 |
| 2007 | 3.53% | 111,489 |
| 2008 | -38.49% | **68,577** |

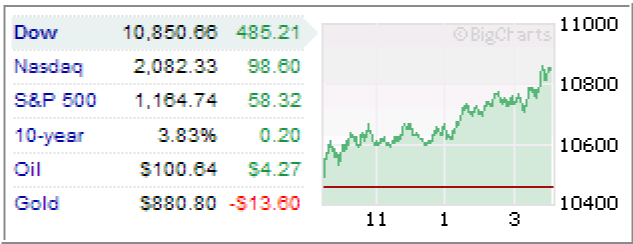
This means a portfolio with a starting value of $100,000 would now be worth $68,000. 8 years of investing via buying and holding and nothing but losses to show for. If the markets don't provide us with a significant rally over the next couple of years, many investors will become acquainted with our own version of the "lost decade."

Since bear markets are a fact of life, and can strike at anytime, a smart investor needs to recognize that fact by using some sort of an exit strategy. This century has shown that selling at the right time is far more important than when and what you buy.

Not selling can have a devastating effect on your portfolio, as we've seen, while missing out on the initial stages of a bull market will merely reduce your potential profits.

**Wednesday, October 01, 2008**

# Holding Forever?




After Monday's drubbing, the markets roared back on Tuesday with the major indexes more than cutting their losses in half. The only fly in the ointment was that the rebound occurred on weak volume suggesting that not everyone was convinced that this would be more than a dead cat bounce.

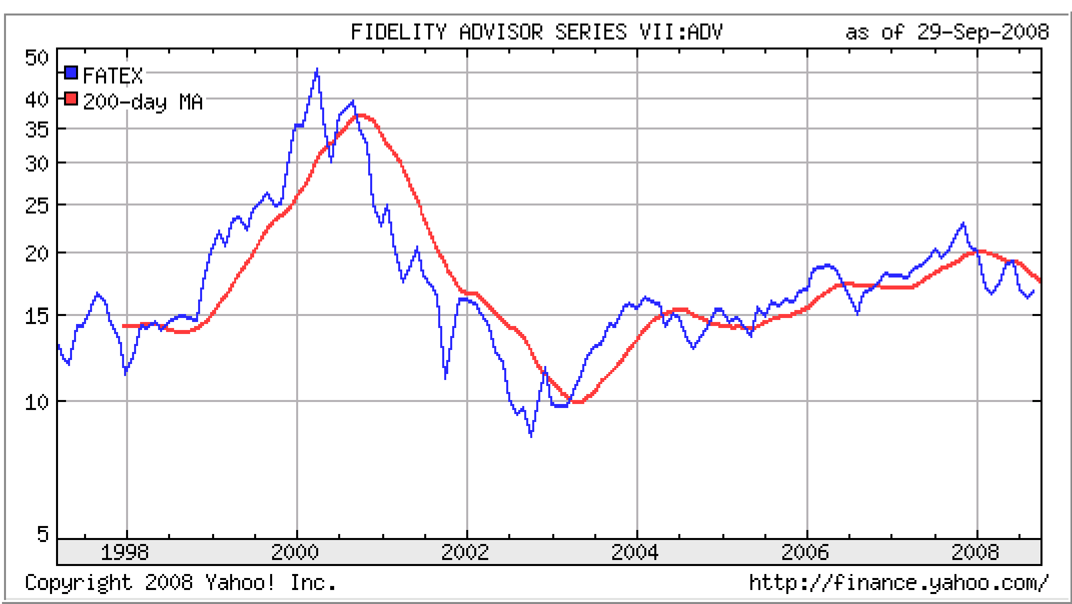
Of course, the big factors behind the comeback were hopes that Congress will approve a rescue package of some sort to bail out the ailing banking system. Only time will tell how this is going play out.

On a different subject, I received an email from reader Jean, who had this question:

*Fidelity Advisor VII Technology Fund - T (FATEX) and Franklin Small Mid Cap Growth Fd Class A (FRSGX) are two funds I've held for almost 10 years. I keep waiting for them to reach the cost for which I purchased them.*

*What do you think I can expect from these two funds?*

Hmm; she's held these funds for almost 10 years waiting for a comeback to reach a break even point. Let's take a look at a long-term chart of FATEX:



I don't know at what price point Jean bought this fund, but it seems to me that were several opportunities to sell for a profit when the long-term trend lines were crossed to the downside during early 2000.

The problem with this scenario is not Jean's fund selection but the investment method she employed in the first place, which is Buy and Hold. It's a fallacy in that there is no clear plan as to when to enter or exit a position. Let's say you bought in at $20/share, when will you sell? When the price hits $40? Or $60? How about $500? It's simply ridiculous to expose yourself to the vagaries of the market place in that fashion.

The inevitable result is that even almost 10 years later, her investment is still negative and she's looking to break even. Both funds are in downtrends right now and should not be held at all.

I suggest to reader Jean to re-evaluate her investment approach and come to terms with the fact that, long-term, buy and hold is nothing but a loser's game.

**Thursday**

# One Man's Pain

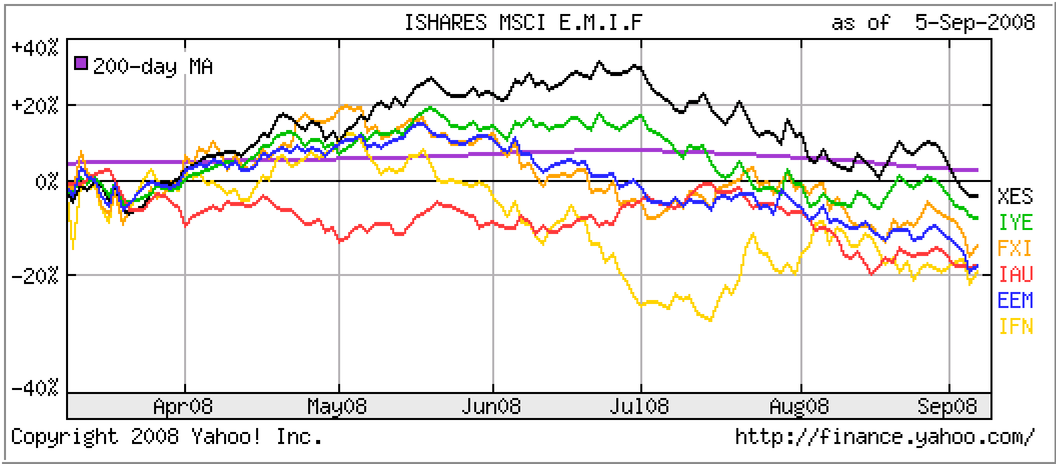
Lately, I have been receiving a lot of subscriber email wondering what to do with their invested positions. I personally find it hard to believe how some people subscribe to my free newsletter, which spells out exactly when to buy and sell, and then proceed to do the exact opposite.

Even my constant nagging of using sell stops seems to simply fall on deaf ears.

Consider the latest email from an anonymous reader:

*My entire portfolio is invested in the following mutual funds..........would you continue to hold or bail out.......I have emerging Markets........gold .....energy ...... natural resources........oil and gas...energy services.....oil and gas services, and precious metals and precious minerals.......... .............China ........India.........that is 10 areas. I think that covers it..............I am getting clobbered ......but I know and feel that these are all areas that are going to rebound.......as soon as the i***t is out of office.........*

Of course, you are getting clobbered when you're hanging on to investments that are in severe downtrends. None of these should be held during a bear market. Take a look at a chart:




Had you used my recommended sell stop discipline for sectors and country funds of 10% from the high since you bought them, you'd be 100% in cash right now. You're playing the game without a plan, based on your wild hope that a new president in office will make all the difference and that your holdings are going to rebound.

While that possibility exists, it's not a basis for making intelligent investment decisions. This is the exact type of wishful thinking that has killed portfolios during the last bear market of 2000 to 20002. I suggest you re-revisit your ideas and become acquainted with the fact that whatever you do, you should always use a sell stop; it will save your bacon many times.

Your investing style is based on a bullish scenario, which will get clobbered in a bear market environment as you have witnessed. I believe that the bear has a long ways to go, but if I'm wrong, then trend reversals, as shown via my Trend Tracking Indexes (TTIs), will give you the opportunity to re-enter the market at a time when the odds are stacked in your favor.

**Monday, September 08, 2008**

# Stop Loss and M-Index Clarification

New reader Lloyd had this experience to share:

I invest in mutual funds and ETFs. I was using Fidelity funds and using the 1 mo, 3 months, and 1-year returns to pick the best performing funds. This seemed to work okay, but recently it had me in all oil and oil related funds and when oil dropped I lost all my profits. I was wondering if your method would do the same or would it get me out with some profit. Also, what do you use for a sell signal for the sector ETFs and sector mutual funds?

*I was looking at your M-Index and wondering why you use YTD in your calculations rather than 1 year. It seems to me that if you use YTD, you're not always using the same number of months to make your calculations. The last month of the year the YTD is 12 months of data whereas the first of the month of the year the YTD is only one month. Does this affect the ranking?*

First, using longer term momentum figures as Lloyd suggests can work as well. However, you still need to pay attention to the direction of the trends and follow a strict sell stop discipline. Just because momentum figures are still in positive territory does not mean holding a fund/ETF is advisable.

Once you have established your invested position, you need to set up your trailing stop loss point. For sector and country funds, I use 10% and for domestic and broadly diversified international funds I use 7%. Without it, you are exposing yourself to tremendous risk no matter which investment approach you use.

Second, you are correct in your observation that the value of the M-Index is reduced to a smaller number every January due to the new YTD returns. Since all M-Indexes for all ETFs/Mutual Funds are adjusted at the same time, it really does not really matter since the figure by itself has no meaning. It is only important when compared to others and shows increasing and decreasing momentum.

Again, when working with momentum figures or trends in general, the implementation of a sell stop discipline will save your portfolio from major damage. Unfortunately, many Buy & Hold investors have not figured that out yet and will have to learn the hard way (by losing serious money) that a bear market is not to be taken lightly.

**Tuesday, August 12, 2008**

## Clarification: The Sell Rule And Stop Loss Points

One new reader is still uncertain on the proper use of the sell stops. Here's what he had to say:

*In your write up for new investors you say that as soon as you buy a mutual fund or ETF, you establish two sell rules. The upside and the down side. The down side is clear - a trailing 7% stop or TTI falling below its MA.*

*But the upside selling rule is unclear. Can you please elaborate on how you set up the upside selling rule?*

When the markets go your way, after you have purchased an ETF or mutual fund, the same 7% sell stop rule applies to the upside. You follow the trend upwards until it reverses and the trailing stop loss point gets triggered. Since you have been accumulating profits, the sell stop will tell you when to take them naturally, that is when the trend ends and starts to reverse.

With this in mind, the trailing stop loss point fulfills two functions:

1. **It limits our losses** in case the trade goes against us, and

2. **It locks in our profits** if prices continue to rise until the trend ends

Trend Tracking, along with the disciplined use of trailing sell stops, greatly reduces market risk.

**Saturday, August 09, 2008**

## Know When To Fold 'Em

Reader Mike decided to not to follow our last domestic Sell Signal (6/23/08), but he actually added to his investment positions. Here's what he had to say:

*I have been buying CGMFX over the last 6 weeks between $54 and as high as $60 per share. I have bought about $40,000 of it. It seemed to go up every time the S%P went down so I thought it was a good hedge. Lately, it has just been going down with oil prices and commodities.*

*Should I just wait it out and hold or sell? I know Ken Heebner is a good trader but even he seems to be struggling with the downward oil and commodity trends.*

*Now I feel like an idiot for buying it at its peak. Should I just get out now?*

Mike obviously went against the major trend hoping that the dip would only be a small one. This actually has happened many times in the past as readers have tried to use pullbacks as buying opportunities only to be caught in a bearish downdraft.

If you put yourself in this position, there are two things you can do, and they depend on your risk tolerance:

1. Sell all holdings now and chalk up the result as an expensive learning experience, or

2. Sell 50% now and put a 5% stop under the balance. That way, you have protected half of your assets from further declines and, should the markets rally from here, you have the other half working in your favor.

While CGMFX is one of the better mutual funds in existence, it still is not a buy and hold forever. Major trend changes to the downside will pull the best managed funds into bear market territory as well so the best course of action is not to own them in this type of environment.

**Monday, June 23, 2008**

# A "Failed" Buy Signal?

Reader Gary brought up an interesting question regarding the fact a new domestic Sell signal has been generated after just having received a Buy signal on 5/15/08. Here's what he had to say:

*Enjoy your newsletter very much. You are on the "mark" with your criticism of government "doublespeak".*

*A major question concerning your domestic timing model. If we get a downturn this quickly after you had a "buy" signal, will this signal a "major downturn"? Usually a "failed" buy or sell signal indicates a major move to most chartists.*

*I know you are not in the "prediction" business but I would like your opinion of "Failed" signals and what they might mean to your trend tracking.*

I have looked back through my records all the way back to 1991. The closest incident may be the events as they shaped up in the year 2000. Take a look at the chart below:


This is our domestic Trend Tracking Index (TTI) and the topping formation (on the left), which occurred during the blow-off period starting in April of 2000.

Notice that we subsequently went through 3 very short-term whip-saw signals (the buys are the blue arrows) before the bear trend was confirmed, and we finally exited to 100% cash on 10/13/2000.

As you can see, while in the bear market, we experienced another whip-saw, this one lasting about 3 months (from 3/7/02 to 6/12/02), which turned out to be the precursor of the bottom of the bear market and the subsequent turnaround, which moved us back into equities on 4/29/2003.

While this past history is certainly not conclusive, I believe that a short-term Buy signal is a sign of uncertainly and could possibly be considered a blow-off until the real major trend settles in. In today's market environment, that would translate into bullish rally attempts before a bear market establishes itself.

Since we won't know for sure how this current scenario will play out, you simply need to follow the trends even if it means a whip-saw or two. The ultimate goal here is not to go down with the bear, which you need to avoid at all costs, especially if the future holds anything like past represented in the above chart.

**Monday, June 16, 2008**

# When Should You Take Profits?

Reader Steve is still unclear about an important part of Trend Tracking, namely when to take profits. He writes as follows:

*Thanks again for your great blog and newsletter.*

*You have really helped me improve my trading (and the way I look at markets). I have appreciated you reviewing your entry and exit strategies. I do have one question. When do you take profits?*

*I have had a few ETFs go quite a bit higher, then fall back to trigger my stop over the course of a couple of weeks. Looking back, I could see they were quite extended above their short term moving averages. When a fund rockets off, should I take some profits along the way? Or should I wait until it falls in momentum or triggers my stop? Any wisdom you can provide would be much appreciated.*

*Again, thanks for your generosity in sharing your experience*

The general idea is let your trailing stop loss be your guide when to get out, either to limit losses or to lock in profits. Here is how I have described it in more detail in my Investment Policy Statement under the "Risk" section:

http://www.successful-investment.com/InvPolicyStatement.pdf

*With Trend Tracking, we set up a clearly defined risk limit. Upon executing the purchase of an investment, we immediately establish a trailing sell stop point of 7%. In other words, as prices rise, the stop loss point rises as well. This essentially fulfills 2 functions:*

*1. **It limits our losses** in case the trade goes against us, and*

*2. **It locks in our profits** if prices continue to rise until the trend ends*

*As you can see, Trend Tracking, along with the disciplined use of trailing sell stops, greatly reduces the risk.*

*For example, if we allocate 10% of portfolio value to a certain ETF, and prices decline right away and trigger our sell stop, our risk is to lose about 7% of the 10% investment. That means the effect on the total portfolio is about -0.7%. (Be aware, however, that the final price maybe slightly better or worse than the 7% loss objective due to market conditions.)*

*This sensible approach allows us to keep these losses small; they are not only part of investing but necessary in order for us to be prepared and ready to participate in the next major uptrend whenever it presents itself.*

*Sometimes it may take several buys and sells, also called whip-saw signals, before the major trend establishes itself. Investor patience is a requirement!*

In other words, if the trend continues your way to the upside, you trail your sell stops along with the rising prices until the trend eventually reverses and triggers your exit points. Using this method, you eliminate any emotional decision making and let the market tell you when it's time to get out.

**Thursday, June 12, 2008**

## Clarification Of The Sell Strategy

In regards to Monday's post "Honing In On The Sell Strategy" one reader had this to say:

*In Friday's newsletter stat sheet, you said "My sell rules are as follows: I will liquidate any of my holdings if they drop by more than 7% from their highs since I bought them, or if the TTI breaks below the neutral zone, which is a point of -1.50% below its long-term tend line — whichever occurs first."*

*In Monday's elaboration, you say "I will liquidate my domestic holdings if the sell stop gets triggered or the TTI breaks below its long-term trend line, whichever occurs first." Which is it? Am I missing something?*

*Thanks for your good work.*

Yes, the reader is correct; I said both. When posting the sell rules in the StatSheet after the Domestic Buy signal was generated on 5/15/08, my intention was to give the market some room to breathe to the downside, in case a sell off had materialized right after our purchase. This would have avoided an immediate whip-saw signal.

While this whip-saw did not happen, here we are less than a month later staring a new Sell signal in the face. While domestic buy cycles usually last from several months to 1-1/2 years, this one may not. From my vantage point, this is either an indication that a major trend reversal may be forthcoming or that the past upswing was merely a bear market rally.

Again, as I said on Monday, this is not an exact science, and we're simply trying to stay out of the way of an oncoming bear market train.

Given that, I will use the latter and issue a sell signal for domestic equity funds, if the domestic Trend Tracking Index (TTI) breaks its trend line to the downside and stays there for a couple of days. Remember, markets go down a lot faster than they go up, so use the solution to get out that best fits your risk tolerance.

**Monday, June 09, 2008**

## Honing In On The Sell Strategy


With the market trends zigzagging, and our domestic Trend Tracking Index (TTI) having moved closer to its long-term trend line (+0.73%), a potential Sell signal has become a possibility again.

One reader had this question:

*Would you please take a moment to elaborate on your sell strategy?*

*You will sell if the TTI falls below the 195 day MA. Will you sell even if the price of your mutual fund has fallen only by, say, 4%? Or will you wait till the price drops by 7% though the TTI has fallen below the 195 day MA?*

*Your posting on Trend clarification is great. But if you could elaborate on your sell strategy, it will benefit people like me.*

*My apologies if the question is unclear.*

As I mentioned in my weekly StatSheet, I will liquidate my domestic holdings if the sell stop gets triggered or the TTI breaks below its long-term trend line, whichever occurs first.

At the end of the last domestic Buy cycle (1/18/08), all of our positions had been sold before the TTI pierced its trend line to the downside. Right now it appears, with the current buy cycle not even being a month old, that the reverse might happen.

Please remember that this in not an exact science. The goal is to be out of the market before major portfolio damage due to a possible bear scenario occurs.

If in fact we head further south, and the Trend line gets violated to the downside, I will sell or neutralize my domestic holdings. What that means is that I have basically two options:

1. Sell all domestic mutual fund/ETF holdings outright, or

2. Sell all domestic ETF holdings, but hold the mutual funds and add an equal amount of short positions to offset the potential drop. In other words, I would be market neutral at that point.

The first choice is pretty clear, so why would I consider the second one? The main reason is that we have only held the mutual funds for a month and are still subject to the 90-day short-term redemption fees. While the fees have become relatively modest ($49.95 at my custodian), some mutual fund companies may not like the short-term sale and could ban me from further trading.

This is an option that was available a few years ago, and I may very well consider it. The short S&P 500 (SH) ETF lends itself to such a transaction. If subsequently the markets go one way or the other, I can then later on remove the hedge and become net long or short again.

If you find yourself in a similar situation in regards to your mutual fund holdings, you may want to consider this kind of approach.

**Monday, June 02, 2008**

## Which Trend Line Should You Use?

Reader Ben brought up an excellent question regarding the use of trend lines to determine the direction of the overall market or certain areas of it. Here's what he said:

*I've followed your StatSheet, and recently the blog, for a couple of years. I think yours is some of the soundest market advice around.*

*For a change, I have a question: You offer buy and sell start/end and clear criteria for them, based on the state of the TTI. Would it be appropriate to apply your criteria for buy/sell to individual mutual funds?*

*I'm thinking of a few well-regarded international funds that did well in 2007, but suffered losses like most in Q1 of 2008. Now, they're well up over their lows and above their 39-week MA, although the index still has a way to go before it catches up. Are the individual funds a "buy" already, or does your disciplined approach caution delay until the index gives a general buy signal?*

Using the international Trend Tracking Index (TTI) as a buy signal generator has worked well for me over the past 20 years, but I admit that it is a very conservative approach. Since I use the piercing of the trend lines as a signal with sector and country funds/ETFs, you could do the same with those well-regarded international funds you were referring to.

If you are more aggressive, and you decide to go that route, I suggest that you work with my recommended exit strategy to be sure that you limit your losses should it turn out that you were wrong or simply too early with your decision.

However, I also recommend that you decide on a strategy and then stick to it. I don't favor using one approach and flopping back and forth to another, because in your mind circumstances have changed. Again, there is nothing wrong with trying to get onboard a little early, as long as you protect yourself from too much downside risk.

**Wednesday, May 21, 2008**

# How Big Of A Sell Stop Should You Use?


My recent posts on the use of sell stops have caused some readers to ask a variety of additional questions. One of them came from Peter, who commented as follows:

*First I want to say that I enjoy your blog very much. Recent articles on sell stops have brought up a question that has crossed my mind numerous times. Having used and read about "sell stops," I would be interested to know how you arrive at your limit percentages.....i.e.: (7 percent)?*

*I have read of investors using anything from 3 or 4 percent to as high as 25 or 30 percent. I have never used a fixed percentage....rather a percentage based on the volatility (guess work). I would like to refine this approach.*

Using sell stops is not an exact science and neither is determining the size of the sell stop. Much depends on the volatility of the investment. I don't deal with stocks but I now that due to higher volatility compared many mutual funds and ETFs, many investors work with stops in the 10% to 20% range. The exact number for an individual depends on his or her risk tolerance.

For slower moving mutual funds and ETFs in the general domestic and broadly diversified international markets, I use 7%. For faster moving ETFs that are exposed to sectors and countries, I have used 10%.

I know of several independent investment firms that use a flat 8% no matter which type of ETF they invest in. There is no hard and fast rule, except one. You need to give the market some room to move so that you don't get stopped out at the slightest hiccup. For example, I have had a reader tell me that he was so afraid of losing that he has used stop loss points in the 3% to 4% area.

The result was that they rarely participated in a trend and had deal with constant whip-saws. From experience, I have found that 7% is a good range. It allows some room for market movement and, at the same time, limits my losses to an acceptable number.

For example, if I allocate 8% of portfolio value to a mutual fund/ETF and, if the markets head straight down after my purchase, I will lose around 7% (give or take) of my investment. Since I had only committed 8% to begin with, this means that my total portfolio is only negatively affected by -0.56% or so.

That's a reasonable risk (to me), however, keep in mind that you may very well have 2-3 losses in a row, which would add up to a higher number. If that type of risk is too much for you, you should not be investing in the financial markets in the first place.

**Tuesday, May 20, 2008**

# Market vs. Limit Orders


Yesterday's review of the use of sell stops prompted one reader to post the following question:

*When selling an ETF, should any type of limit be placed on the sell order, or just sell at market price? Buy and sell orders are new to me and I've just been buying at market price. I have not executed a sell yet, so any advice or links to information that anyone can share would be appreciated.*

While this reader seems to be new to investing, he nevertheless brings up a valid point: What type of order should you use when purchasing ETFs?

My view is that you should always use a limit order and never buy at market price if you have that choice (and don't need to sell at all costs). Here's how I approach it:

First, I make sure that the ETF under consideration has a large enough average daily volume to accommodate my size order, which maybe a couple of million dollars. I want to be able to buy or sell without too much slippage in price. Depending on your order size, this may or may not be a consideration for you.

In my case, out of some 600 ETFs that I track, I have identified about 80, which have a high enough volume to facilitate my order at anytime. If my previous day closing price has indicated a buy for the next day, based on the current trend and momentum, then I am ready to place my order.

However, I usually watch the market activity for a couple hours or so into the trading day before taking action. Once I am ready to pull the trigger, I check the current price and place a limit order for that price. Even though I want to get onboard, I will not place a market order as it exposes me to, let's call it, the vagaries of the market place. I may get a partial fill and may have to enter a different limit price, if necessary, to complete my order.

Again, the idea is not engage in any kind of scalping to squeeze out a penny in form of a lower price, but to participate in the developing trend.

As soon as my order is filled, I set up my tracking spreadsheet along with my trailing sell stop points. I update these every day and know where I stand at all times in regards to any Profits/Losses and proximity to my exit points.

Being clear and disciplined about the process eliminates emotional and irrational decision making, which will make your investment life a lot easier than working by seat of your pants.

**Monday, May 19, 2008**

## Sell Stops Revisited

As we are entering a new domestic buy cycle (hopefully one with duration), the question of the proper use of trailing sell stops has come up again.

Here's what reader Al had to say:

*Please explain how to execute a stop loss order on the end of day closing price as you stated in your last blog. I always use the 7% rule, but sometimes my equity will drop below the 7% intraday and trigger the stop loss order, then shed losses to close at a gain.*

This is an important topic and, even though has been discussed many times in the past, it's worth repeating. Here's how the process I use.

Upon investing in my new positions, I set up my spreadsheet to track all trailing sell stop points on the basis of **day-end closing prices only** in the case of ETFs. In other words, I treat my ETF holdings no different than my mutual fund ones in the sense that I want to see the 7% sell stop limit violated by the closing price of the day before taking any action.

Only after that has occurred, will I enter my order to sell the next trading day. In the case of ETFs, I **never enter a stop loss order ahead of time** since it has shown that intra-day moves can stop you out with the trend subsequently resuming.

Executing stops are not a clear cut black and white type scenario. Let's say, at sometime in the future, based on the closing price, one of my holdings is down from its high -7.10%, which would indicate a sell the next day.

Since the 7% level has barely been broken, I may watch market activity for another day or so to see if there is a rebound. If there is, I will hold on to this position; if there is not, I will pull the trigger.

You need to look at the sell stop points not just as a hard number but a guide for you to determine whether action is warranted. That's why the final price maybe slightly better or worse than the 7% loss objective due to market conditions.

Remember, depending on when your sell stop gets triggered, the goal is to limit your losses and avoid going down with a possible trend reversal. On the other hand, if the trend continues upwards for a few months before reversing, this little technique will tell you when it's time to get out and cash in your profits.

To sum it up, using trailing sell stop points will do two things for you:

1. **They will limit your losses** in case the trade goes against you, and

2. **They will lock in your profits** if prices continue to rise until the trend ends.

**Monday, December 03, 2007**

## The Frustrated Investor

The month of November definitely took an emotional toll on all investors including the professionals. Although we use a methodical approach via our trend lines and trailing sell stops, volatile markets at an inflection point can shake anybody's confidence and/or conviction. An anonymous reader responded to last Saturday's post as follows:

*"It seems that it is always something unexpected that derails even the most powerful moves/bull in the market. They are always so obvious after the event happens. The subprime issues are like an octopus with 8 legs and no brain. Who knows what the other legs will be from the subprime head.*

*This latest 10% correction is probably just a signal that more is to come rather than the worst is over. Ned Davis has done some superb research over past corrections and once the market falls 10%, there is an equal chance that it will fall 15% from its highs.*

*Nassim Taleb has written a very good book "Fooled by Randomness" which really tells us that we will not know until it is over. Your work allows investors to be out during these tough times, and I am personally out of all but 1 domestic fund due to the fact that the others have violated 7% stops. The tough days are the last few when you are itching to get in emotionally, but statistically you must not.*

*Thanks for the work you do."*

This reader gets it. He has the emotional make-up to deal with market adversity, and he realizes that good times, such as we had during September and October, will undoubtedly followed by bad times. He is also aware that the markets currently are at a crossroads where a resumption of the existing up trend or a reversal towards bear market territory could be at even odds.

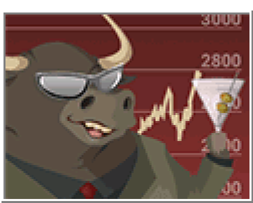
Reading books such as Nassim Taleb's "Fooled by Randomness," or "The Black Swan," which I reviewed before, can help you get away from looking at markets with too much emotion but in a more factual way by accepting that tops and bottoms can't be determined until after they have happened. That's why sell stops fulfill the critical function of either locking in profits or limiting losses. As of right now, it appears that October 31st was the high in the market. If you are reviewing your portfolio now, you might see a 5% or so drop off the highs, which should not upset you if you realize that one, you did well during the prior 2 months and two you enabled a protection mechanism that will prevent your portfolio from sliding into oblivion.

The overly eager actions by Treasury secretary Paulson, and the mortgage/banking industry as a whole, to hammer out an agreement by next Wednesday to freeze planned Subprime mortgage increases tells you that there is great urgency to stem the tide of foreclosures. At the same time, as I elaborated in Saturday's post, banks and lending institutions are in dire straits because of their leveraged positions and shrinking balance sheets.

Again, the markets are at a crucial point. It's imperative that you protect your portfolio from too much downside risk which means giving up some of your unrealized profits via your sell stops in order to avoid bigger losses. A bear market has become a distinct possibility although we won't know it until we're in the middle of it.

**Thursday, November 29, 2007**

## Is The Bull Back?




Yesterday's follow through rally brought the question back to front burner as to whether the recent down trend has run its course, and happy days are here again.

From my vantage point, it's too early to tell. Fundamentally, nothing has changed in the past couple of days, other than that Fed talk was interpreted as a confirmation of an easing of interest rates when the Fed meets next month. The same old Subprime/credit and real estate problems still exist, but today Wall Street in its infinite wisdom focused on a "maybe" event.

Technically, we did not miss out on anything since most sector and country ETFs have now just about regained everything that they lost since our sell stops were triggered earlier in the month. Of course, if you were the adventurous type of investor and had thrown your entire portfolio at the market during last Monday's drubbing, you would have had a nice short-term gain.

If last Monday was in fact the bottom, we will need to have a little more confirmation that this rally indeed has legs and staying power. More follow through buying is needed to confirm that the up trend has been resumed.

Remember, when following trends, we will never buy exactly at the bottom, because that point is unknown at the time and can only be determined *after* the market comes out of a bottom formation. In that sense, we will always be late to the party, but it will help avoid a potential whip-saw signal here and there. The objective is to buy somewhere within 10% of the bottom, and sell somewhere within 10% of the top. Since we can't forecast either point, both conditions have to occur first before we can take any action on either side.

**Tuesday, November 20, 2007**

## ETF Investing: Skating On Thin Ice


I have been elaborating on the need for methodical investing almost on a non-stop basis. Sometimes it seems that, when reading media stories, that I am the lone ranger. Many of my newsletter readers are aware of that and at times submit stories that support the fact that there are others who have similar viewpoints by trying to make sense out of Wall Street's irrationalities.

Recently, reader Mike shared an article from "Money and Markets" titled "U.S. Stocks Skating on Thin Ice." Author Tony Sagami makes a lot of sense, and not only because it goes along with my way of thinking, when he outlines 4 things you can do to protect yourself from more stock market weakness:

1. **Adjust your asset allocation**. This is a great time to look at what percentage of your portfolio is invested in stocks, bonds, cash, etc. If you're heavily invested in stocks, you may want to consider reducing your equity exposure and raising cash.

2. **Implement stop losses.** These orders tell your broker to sell your shares if they fall to a predetermined price. Only you can decide what prices you'd like to sell at, but many investors choose an acceptable percentage amount (say, 10%) and apply that to each of their positions.

3. **Use a strict sell discipline**. Market technicians use tools like moving averages, relative strength indicators, and other momentum-oriented tools to tell them when to buy and sell. One of the simplest market-timing strategies is selling a stock or fund whenever it drops below its 50-day moving average. But whatever indicator(s) you use, the key is removing as much emotion as you can from the process.

4. **Don't get stuck in one country**. The U.S. economy is rapidly slowing and even on the verge of falling into a recession. However, that is hardly the case in other

parts of the world. It's a lot better to invest in countries that are growing like mad than those that are crawling along like inchworms.

I agree with Tony's assessment because as part of trend tracking we regularly follow all of those suggestions. The only caveat I have is regarding his point 4. As the U.S. markets slide, so will most countries but at an accelerated pace. But you already know that. If you followed our recommended sell stop discipline, you should not have much exposure to most foreign countries, especially those that have come off their highs by more than 10%.

**Saturday, November 17, 2007**

## ETF Investing: Market Agony

No matter which investment methodology you use, you are bound to be frustrated and disgusted from time to time. Recent market behavior seems to have brought these feelings to the front burner, as reader Chris writes:

*I value your input and am grateful for the service you provide.*

*How do you deal with the volatility of the market such that when you sell funds that have reached their sell stop one day, and the next day the market goes up a lot (like today) and erases the losses you took for the day before?*

*All of my funds are in either 401K's or IRA's and I still have 20+ years before I have to start taking disbursements. However, I get so upset when the market falls so much (I lost 50% during the bear market of 2000).*

*How do you distance yourself from what you do and not take it personally?*

I am sure that Chris is not alone with this assessment, so here's how I answered her:

"I have found that the only way to deal with the irrationalities of the market place is to detach myself emotionally by using a systematic approach to investing such as I advocate.

As you know, we have a clearly defined entry and exit strategy; still, you have to accept the fact that sometimes markets will go against you, by stopping you out of your positions and thereby either triggering a small loss or forcing you to take profits.

There is no perfect investment approach. While there are many, every one of them has its drawbacks at one point or another. Since you still have some 20 years to retirement, you need to look at the big picture. While there are never any guarantees about investing, one thing is for sure: There will be another bear market, which has the potential to shave the value of your portfolio down considerably.

Unfortunately, many experienced that disaster during the 2000 to 20003 period, as you did, by seeing their portfolios deteriorate some 50% or worse. That's what you need to guard against, everything else is secondary.

Having said that, the day-to-day pull backs and rallies (and occasional whipsaws) that have frustrated you, are merely an inconvenience, a price you pay for being astute and aware of the fact that bear markets need to be avoided at all costs.

I don't like the day-to-day changes any more than you do, but I keep my nose away from hyped up news stories and focus on the big picture as outlined. That helps me keep my emotions in check."

**Monday, August 13, 2007**

## ETF/No Load Fund Trading: How Important Are Fund Trading Costs?

Bloomberg had an article titled "Soft-Dollar, Trading Costs Devour Fund Returns," which describes the effect of various expenses and trading costs on overall mutual fund returns.

The story goes on to look at a fund manager's turnover rate, which is the amount of trading expressed as an annual percentage of fund assets. For example, a turnover rate of 100% tells you that the value of the entire portfolio was traded in a year. Yes, this does happen; in some fund orientations more than in others.

That in itself is an irony, because the fund manager obviously feels that, in order to increase performance he needs to discard losing stocks and add more on the winning side. While this makes good business sense to me, there is a double standard here. Why are you, as a fund investor, not supposed to (or only with a penalty) to do the same thing by dumping underperforming funds and replacing them with better ones?

Makes it pretty clear whose interests are priority and whose are not.

The gist of the story is that all fund expenses decrease the shareholder's return. However, keep in mind that this is only an issue for Buy & Hold investor, who will not only be paying these expenses in good times, he will also be paying them as his portfolio suffers in a bear market.

Following trends, I never concern myself with a fund's expense ratio. I want to be invested in a good performer and will only stay in it long enough until my sell stops, or a major trend reversal, takes me out of the market. While the entire mutual fund community hates this selfish profit motivated approach, it allows you to stick to the basis of investing, which is to make your money grow and not be loyal to a fund company that has absolutely no loyalty towards you.

Speaking of selfish and profit motivated, always remember, a mutual fund company's main goal is the same as the one for any corporation, including the one you work for: To make money for the company; nothing else. If you happen to grow your portfolio along the way, that's great, but not necessary for the fund company to survive.

Here's a more humorous way to look at it: "Fall in love with your wife," but "fall out of love with your mutual fund," and focus only on those that can help you grow your portfolio.

## From The ETF/No Load Fund Archive: The Most Frequently Asked Question

Investors, for the most part, are a confused bunch. And, I hate to say it, but that includes some of my 17,000 weekly newsletter subscribers. Not a day goes by that I don't get the same question asked by different readers.

Maybe that's my fault for not being as clear about some of the ins-and-outs of trend tracking as I think I am. This is what the most frequently asked question sounds like:

*"I have owned this ABC fund/ETF for some time and recently I've been reading that it is no longer recommended and a broker friend at 'I-want-to-sell-you-a-commissioned-fund, Inc.' also says I should get rid of it. Please give me your opinion."*

Usually, when I look at the chart, it's a pretty decent fund that is within 2-3% of its high and definitely following the current uptrend. Additionally, it has held up during market pullbacks similar to other funds in that category.

My answer is the same every time. First, stop exposing yourself to information overload and second, stop listening to people with an agenda. Focus on what I write on a weekly basis: Figure out the highest price of the fund/ETF since you bought it and set a trailing sell stop point.

That will eliminate any kind of guessing game and will keep you invested in an up trending fund until the market reverses and your sell stop gets triggered. This effort will take you 2 minutes a day of checking prices, and it keeps you away from the media and their ever changing stories.

If I can only get you to eliminate the daily hearsay bombardment, and you thereby can separate your emotions from your investments, you will become a better and less confused investor.

**Thursday, June 14, 2007**

## ETF Tracking: Looking Under The Hood Of Sell Stops

With the markets displaying some roller coaster similarities, this is as good a time as any to look at the process I go through in the event one of my sell stops gets triggered. Also, how I might deal with the inevitable fact that, sooner or later, the TTI (Trend Tracking Index) will slice through its long-term trend line to the downside, thereby generating an all-out Sell for all domestic equity funds/ETFs.

Reader Nitin sent in the following question, which made me realize that my sell stop discipline is a little more than cold and hard percentages. Here’s what he had to say:

*“Ulli: I read the update on your blog after the market activity of June 12. Overall, I agree with your approach to investing and tracking the market activity by some objective parameters to prevent getting run over by the bear market.*

*My only suggestion is that since this is not an exact science one cannot be too dogmatic about any specific approach or the numbers. This is not to say that we should not use these numbers that have stood the test of time but, they should be backed up by intuition, judgment wisdom and flexibility. The numbers can be used to get a general direction without being very precise about it.*

*For example, is it possible that in a dynamic process of market activity what worked in 2000 may not be applicable in 2007 or 2008? This is not a criticism about the current approach. I am just raising a caution about being too precise about the numbers."*

That is great feedback and allows me to be a little more specific about the process.

The key point about trend tracking is that you have to draw a line in the sand somewhere where you need to take a stance. In other words, at some point, action is required to both lock in some profits and avoid having your portfolio go down in a bear market.

You are absolutely correct that this is not an exact science, but not getting emotionally involved in the decision making process is crucial. Otherwise, there will always be reasons why "it's different this time," which is one of the big portfolio killers. It's never different this time!

However, once we reach critical mass, meaning when either the 7% sell stop point is triggered or the TTI has crossed its long-term trend line, I do apply some wisdom gained from 20 years of experience in the trenches. Realizing that the possibility of a whip-saw always exists, I try to show a little flexibility.

Here's how:

If one of our fund holdings drops below the pre-set sell stop, I don't immediately place a sell order. I watch the next day market opening to see if prices are rebounding or are further sinking. If it is a neutral scenario, I may wait a couple of days for confirmation that we are actually heading further south before entering my sell order.

The same applies when the TTI drops below its long-term trend line. Here too, I want to get confirmation of further downside movement before selling and heading to the sidelines. However, I will not try to outguess the trend that is clearly reflected in the numbers. It will backfire as I have witnessed with a large money management firm that has been using trend following for 30 years.

First, during the rebound in April 2003 (after the bear market), they "outguessed" the trend and missed one of the greatest rallies in recent years. Same thing happened last year, when a trend emerged again after the May/June meltdown, and this firm stayed on the sidelines and is now staring at a market that has been on an uptrend for 9 months.

My point is that investment discipline coupled with some applied experience will be the best guide in surviving a tumultuous market environment.

**Sunday, May 27, 2007**

## Investment Management: When to Hold 'Em—When to Fold 'Em

During the last week, a few newsletter readers had questions about the use of sell stops as they pertain to my trend tracking methodology.

Here's one e-mail:

*I have some mutual funds that are in nose bleed territory, and I have mental sell stops which are about 6-8% below current price.*

*How do you suggest handling these individual funds, which appear to be subject to greater drops than the average fund? If I should buy a new fund/ETF, how can I best protect myself and keep my possible loss to a minimum?*

*Also, you mentioned in one of your articles setting an upside and a downside sell point. Could you elaborate?*

Let me clarify, since this is an important issue.

For domestic funds/ETFs, your trailing stop should be 7% below the "high price" the fund/ETF made "after" you bought it. You don't compute it from the current price, unless you just purchased it.

Also, be sure to consider any fund distributions since they have an effect on your sell stop point. I'm not sure what you mean by your funds being in nose bleed territory; if you use the sell stop discipline, this will never happen.

When selecting funds, use the StatSheet as a guide and make your selections based on your risk tolerance. In other words, if you are conservative, don't pick very volatile sector or country funds.

The upside sell on any of your funds would be the trailing stop loss (7%), which eventually will get you out of the market, provided you follow the signal. Or, if our TTI (Trend Tracking Index) gives a sell first (unlikely) then that would be the overriding factor.

The downside sell occurs if the market goes straight down after your purchase of a fund/ETF; the 7% sell stop will serve to limit your losses.

**Tuesday, April 10, 2007**

# ETF Investing: Should You Place Your Sell Stop With Your Broker Ahead Of Time?

If you are following my trend tracking approach to investing in no load funds and ETfs, you know that I'm a strong advocate of using sell stops.

Obviously, you can't place sell stops for mutual funds. You need to track them yourself and place the order after your point has been triggered.

What about ETFs?

Should you place your sell stops ahead of time?

In my advisor practice, I only work with day-end prices and ignore the intra-day fluctuations.

Why?

The reason for my sell stop is to get out of a position only if the long-term trend has reversed, which means that I don't want to be subjected to the minute-by-minute volatility of the markets.

Here's what reader Kurt experienced:

*"I had the stop loss sell points at my broker; unfortunately I seem to be getting stopped out at the worst possible intraday prices. I think I'm just going to execute my sell points myself...No point in showing my hand."*

If you work with day-end pricing only, there is no reason to place your order ahead of time. For one, if the markets move up, the sell stop point changes and you have to change your order as well.

Two, let's look at what happens to your pre-set sell stop. It goes to the trading floor and becomes part of a trader's stack of orders, which he executes as per instructions.

Now remember, this trader also scalps the market for his own account. Hmm, do you think him knowing where some of the buy or sell stops will be triggered, gives him an edge? I'm not saying that anything unethical would ever happen on Wall Street's trading floors, but it makes you think, doesn't it?

**Tuesday, February 27, 2007**

## One Day Does Not Make A Trend

The markets corrected in a big way today with all major indexes closing sharply to the downside. It was one of those days, where you could not find a place to hide.

While you can read about what happened in any newspaper or on your favorite financial web site, I want to briefly talk about how this drop affected our trend tracking methodology.

The answer is "not at all."

Here's how the day played out as far as our Trend Tracking Indexes (TTIs) is concerned:

TTI for domestic funds dropped from +5.79% (on 2/26/27) to +3.99% today
TTI for international funds dropped from +10.25% (on 2/26/07) to +6.90% today

In other words, the long-term uptrend is still alive as of right now, and we need to monitor to see what develops in the next few days.

What about our sell stops? As you know, for domestic and international funds we use a sell stop point of -7% off a fund's high. None of our holdings have hit this point today and many have dropped off their highs by only -2.5% on average. That means no change in our holdings.

How about sector and country funds? In that arena, we use sell stops of 10% and none of our positions have violated that point either.

Bottom line is that this day of a market meltdown, while certainly reducing some of our unrealized gains, has not had an impact on our invested positions.

One day events usually don't make a trend. This is not to say that this could not be the beginning of a long-term reversal, but it's too early to tell. As long as you have a plan in place, as I have been writing about for a long time, you should not make panic decisions based on today's activity. If some of your stop loss points got hit, by all means, take action. If they haven't, keep monitoring the activity and let the markets tell you when it's time to exit.

Trying to keep your emotions out of the decision making process on days like this is the key to becoming a successful long-term investor.

**Wednesday, January 03, 2007**

## Mutual Fund/ETF Investing: How to Track your Stop Loss Points

If you follow a methodical way to investing in no load mutual funds/ETFs, as I do, you most certainly will have learned the use of trailing sell stops to either lock in profits or limit any potential losses.

Putting money into the market without them is gambling and not investing. Despite the fact that you can't place a stop loss with a mutual fund company, you nevertheless need to track it and place the order whenever it gets triggered.

In my practice, I track all sell stops via my custom data base and spreadsheet. It‘s easy for me do, because I spend a lot of time in front of my computer. If you are traveling a lot, this might be more difficult and pose a problem for you.

There is a solution. Some of my newsletter readers have used a couple of services which, for a subscription fee, will track trailing sell stop points for you and send an e-mail to you or your cell phone if any of them have been triggered. While I have not used these companies myself, you might find it worthwhile to check them out.

Here are their web sites with more information:

www.tradestops.com

www.exitpoint.com

Feel free to send me an e-mail and share your experiences.