Trade Like a Pro in 5 Simple Steps

by Tom Aspray

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Most traders and investors have the ability to become their own analyst and to gain the skills of a professional trader. It does require discipline, hard work and the right tools but you can increase your portfolio's performance.

In “My Four Favorite Research Sites” I discuss how these four free sites can be used to find stocks in the best sectors which have the best potential to be market leaders. By watching a stock or ETF’s weekly closing price relative to its quarterly pivot level (Follow the Trend with Quarterly Pivots) you can determine whether they are trending higher or lower.

Sometimes the overall market is not trending but in Picking Stocks in Non-Trending Markets I discuss how you can identify those stocks that are trending. Trending stocks have the best potential for sharp gains.

Investing or trading success is often dependent on your entry price and many losing trades come from entering at the wrong price. In Advanced Entry Techniques for Any Market I discuss several of the methods that I use to fine tune my entry levels while keeping the risk at acceptable levels.

Both investors and traders must use stops on all positions. Often time placing your stops can be like psychological warfare as one tries to avoid using the same stop as other traders. In Mastering The Basics of Stop Placement I examine in depth how I have managed the stops in some of my past Charts in Play recommendations.

Interested traders can follow how I apply many of these methods in my daily Charts in Play column

Good trading

Tom Aspray
My Four Favorite Research Sites

The Internet offers a bevy of free information to assist one in the formation of a market strategy, however, sometimes it can all seem quite overwhelming, so MoneyShow’s Tom Aspray shares his four favorites.

For those traders or investors who are looking for stocks or ETFs to buy, the wealth of free information on the Internet is quite astounding. It can also be quite intimidating, so I thought I might review four of my favorite sites and how you might use them in your research.

Though my focus is on the technical, I don’t discount the fundamentals, and therefore, one predominantly fundamental site is included in my list. The initial slides were generated on Tuesday afternoon after the announcement was made that US Airways Group, Inc. (LCC) and American Airlines (AAMRQ) reached a settlement allowing their $17 billion dollar merger to go through.

My research path often starts out at www.finviz.com, and the graphic below is a partial screen shot of the home page. This can give you a quick view of the day’s market action. On the top, there is a ten minute intraday chart of the Dow Industrials, Nasdaq Composite, and S&P 500 (not included). (Editor’s Note; Sections of the entire Web page had to be used so that they would fit appropriately within the article.)

Below the Dow chart (#1) is the combined advance/decline data from the NYSE, AMEX, and Nasdaq. It shows that 34.9% of the issues were advancing, while 58.9% were declining. Next to it (#2) is the combined new high and new low data for the same exchanges.

The front page also includes another valuable way to measure the market’s health, that is, the number of stocks above their 50-day MAs. This is a data set for the S&P 500 that I often feature in the Week Ahead columns.

I pointed out in October (see chart), as well as late June, the number had turned up from levels often associated with market bottoms. In both instances, these changes coincided with positive signals from other technical studies, indicating that the stock market was bottoming.

The site also does a good job of screening stocks and separating them into lists, and examples are listed below the chart. They have the Top Gainers, (point a), as VNDA leads the pack for the day, up 95.29%. The links are dynamic and will take you to the entire list, which gives you a candle chart and fundamental data on each stock.

Next are the stocks that are making New Highs (point b) and also those that are considered Overbought (point c). These stocks are ones that have had “extreme price moves in the past two weeks,” based on their 14-period RSI.
I generally start my analysis with the next list of filtered stocks, those with Unusual Volume (point d). This link will take you to several pages of stocks, starting with the one which has the most volume. On Tuesday, this was **US Airways Group, Inc., (LCC)**, as 37 million shares were traded.

![Candle chart of US Airways Group, Inc., (LCC)](image)

I further filter the “Unusual Volume” stocks by the average volume, (circled in blue), and use the descending order, as shown in this link. I do this since I am really only interested in stocks that trade at least 300K shares per day. Unusual Volume is just one of the choices available from the Signal pull down menu.

The candle chart of **US Airways Group, Inc., (LCC)** is shown on the left side of the page, with a news ticker underneath. Their software draws trend lines, and based on these different chart formations, they are also filtered into groups on the home page.

![Fundamental data for US Airways Group, Inc., (LCC)](image)

On the right side of the page is a three column list of fundamental data, (only two are shown). They provide information like the capitalization, dividend, insider ownership, % of the float that is short, as well as the average volume. The 52-Week range is also provided. Of course, you can also run scans, or filters, based on the fundamental as well as technical data to develop your own lists.

On Tuesday, the third stock on the list was **JetBlue Airways Corp (JBLU)**, which is listed in Finviz as a Regional Airlines. Even though the merger news made Tuesday a bit different, my next step is to look at a chart of the industry group.
On each page you will see a header called Groups (outlined in red). This will look at the performance over different periods of the sectors, industry groups, all US listed stocks or stocks grouped by capitalization. For this example, I want to look at the industry group (point 1), and then bar chart (point 2).

This will give you an alphabetical list of all the industry groups. I have cut out the Major Airlines chart from this list. The group broke out of its trading range, lines a and b, in October, and is acting very strong.

Since this is clearly a market leading sector, I can click on the chart of the Major Airlines group and get a list of all the stocks in this Industry group (point 1). I generally then filter these by those which have an average volume of 300K or greater (point 2).

This gives me a list of stocks by performance, but if I choose charts (point 3), I get the candle charts of the five stocks (see below) that meet the criteria, all on one page. This allows me to quickly examine them to see if any look interesting. Generally, I look for those that are basing, or those that have had what appear to be normal corrections after a sizable rally.

In this case, I then look at the Regional Airlines group and notice that JetBlue Airways Corp (JBLU) had just overcome major resistance from the April and October highs. It was one of the more interesting charts, along with Allegiant Travel Company, LLC (ALGT).

Once I have found a stock to look at, I want to see how it is performing versus the overall market. One of the easiest ways to approximate my relative performance analysis is with stockcharts.com, which is a site that I have written about in the past.
Selecting Free Charts on the home page takes you to various lists of subgroups of stocks and ETFs. One that I use frequently is the CandleGlance: S&P Sector ETFs, as it has the nine Sector Select ETFs that I comment on regularly, as well as, the S&P 500. They give you the option of looking at two months, which is the default setting. You may also choose six months, one year, or a P&F chart.

The charts are very clear and they allow me to quickly determine which sectors are acting the best and worst over the last few weeks. Also, by clicking on any one of the charts, takes you to a larger Sharpchart of the ETF. They also have a very good series of advance/decline charts on their Market Breadth page.

My favorite chart type, as I reviewed in Learn to Drive Your Own 401k, is the Gallery View. This can be created in the pull down menu under Create a Chart in the middle of the page. This gives you two charts; the first is a daily chart with their Percentage Price Oscillator (PPO) (quite similar to the MACD) on top, and the CMF (Chaikin Money Flow) below the candle chart on the bottom.

The daily chart shows that JBLU broke out of a base formation, (line a), and has been in a strong uptrend since October. One of the features I like about their charts is they label the price of each swing high and low on the chart.
They also provide the values of the MAs that they use, or that you select. If you are a paid user, I believe you can also draw your own trend lines online and also get a greater depth of analysis, as well as, the ability to create your own pages of stocks.

The weekly chart includes the volume, as well as, the ratio of the stock, ETF, or mutual fund to the S&P 500 (SPX), along with its 20-week EMA on the bottom of the chart. This can help you determine whether the stock, ETF, or mutual fund is leading or lagging the S&P 500 (SPX).

The weekly chart shows a major breakout above the April 2012 high of $7.28, line a, as well as the move above the late October high of $7.69. This now becomes the first level of important support. The ratio, or RS chart, shows that it moved above its WMA in September (point c), and has now overcome the resistance that goes back to early 2012, line b.

I have found the most dynamic free charting site to be www.freestockcharts.com from the Worden Brothers. Their free site gives you lots of flexibility, in terms of indicators and analysis, as you can look at anything from a one-minute chart or a yearly chart on a delayed basis.

It uses Silverlight from Microsoft, which you will need to download, but in my experience, it is quite a secure process.

On their free platform, you can draw trend lines, run moving averages over indicators, and do Fibonacci, as well as, pivot point analysis. For a fee, you can upgrade to TC2000, which includes their proprietary volume studies, like the Time Segmented Volume, and involves a whole investor community.
Allegiant Travel Company, LLC (ALGT) was another Regional Airlines stock that I noticed on the Finviz site. The chart shows an uptrend from the September lows, line b, which is now in the $102.50 area, which is also the quarterly pivot.

The chart shows major resistance in the $109.80-$110 area, line a. If this level is overcome, the trading range gives upside targets in the $128-$130 area. Using the pull down menu under Indicators (circled), I have added the OBV with its 21-period WMA. The chart shows important OBV resistance at line b, which is the key level to watch.

On the bottom, I have added their relative strength, which is very close to the relative performance that I regularly use in my analysis. The RS line turned up on Wednesday, but needs to move through the July-October highs, line d, to signal that ALGT is again a market-leading stock.

Using the Daily function (Circled in yellow), you can almost instantaneously switch to a weekly, monthly, or intraday chart. As you can see, there are other icons for setting an alert, saving chart data, sending a Tweet, posting a chart to Facebook (FB), and saving the chart image. It also gives you the capability of setting up a portfolio.

My favorite site for fundamental data, as well as performance, is Morningstar. They follow almost every type of financial instrument and have a large group of excellent analysts that provide commentary, as well as ratings.
The home page gives you the ability, at the top, to get a quote, as well as a header list of the various types of financial instruments. They also have a scrolling current market information line, as well as a way to look at the US and other global stock market indices. This can be helpful first thing in the morning, to find out what happened overnight.

I generally start by going to the quote page, and below the part of the home page is an example of the quote page for Allegiant Travel Company, LLC (ALGT). Here you find the current quote, the change, as well as the opening price. I use their data to check data from other sites.

It also gives you the day, month, and year's range, along with how much the stock is below its 52-week and five-year high. For ALGT, it is currently 4.82% below its 52-week high.

As I mentioned, I like their performance data, as they have charts that show what would have happened to a $10,000 investment over a time period, which is compared to its industry group and S&P 500. In this example, 2008 ALGT is up to around $33,000 compared to less than $15,000 in the S&P 500.

Their financial data is extensive, as their Key Ratios provide you with fifteen key financial ratios for each stock. They also have tabs for full financial information, valuation, insider activity, etc.

They, of course, also have premium services where you get a detailed analysis from their research team. The ranking of mutual funds is well known, and in last summer's article on dollar cost averaging for new investors, It's Never Too Late to Build a Portfolio, I provided their ranking of mutual funds.

In the past, I have also used Yahoo extensively, but I find that after their recent modifications, the financial section is much more difficult to use. I should also point out that, just recently, videos have been popping up on Finviz. They are easy to shut down and don't come right back. Hopefully it is not a trend for the site.

I also use BarChart.com for its very extensive commodity data, and they also have stock data and technical screens. I am sure there are other sites that I have not discovered, and if you have a favorite that you think deserves to be included, please let me know.

The research process that I use may not suit your taste, which is fine. It is more important that you develop your own and follow it on a systematic basis. By repeating the process each weekend, it will help you gain the discipline necessary to become your own analyst. Keep notes and a list of stocks that you are watching in the week ahead.

In my daily columns, the next step is, of course, to determine a reasonable entry price, as well as a stop where the risk is not too high. This is an important part of managing any trade, as I discussed more fully in “5 Rules for Success in 2013”.
Follow the Trend with Quarterly Pivots

A new quarter is upon us, which is why it is important to analyze and interpret the quarterly pivots to determine if they were helpful in navigating the previous quarters’ tumultuous markets, says MoneyShow’s Tom Aspray.

As we start a new quarter, it is time to determine whether the quarterly pivots helped one navigate what was a frustrating market for many investors and most traders. In December of 2012, I wrote “The Most Powerful Pivot Level” where I discussed using quarterly pivots which had been shown to me several years ago by John Person.

Since they were going to be featured in his new book, I was able to share his research with my readers. Since then, they have been featured in several other articles and I have been providing a table each quarter that can be used as a reference. The rather simplistic approach that I use is to watch whether a market average, stock, or ETF has a weekly close above or below their quarterly pivots. I also use the pivot resistance levels as another way to determine upside targets. Sometimes, the quarterly levels will also correspond to weekly or monthly starc bands, which suggests that this level is even more important.

<table>
<thead>
<tr>
<th>Exchange Traded Fund</th>
<th>Ticker</th>
<th>2nd Quarter Pivot Levels</th>
</tr>
</thead>
<tbody>
<tr>
<td>S&amp;P 500</td>
<td>SPY</td>
<td>109.25</td>
</tr>
<tr>
<td>NASDAQ Composite</td>
<td>NDX</td>
<td>3,308.45</td>
</tr>
<tr>
<td>SPDR Gold Trust</td>
<td>GLD</td>
<td>123.39</td>
</tr>
<tr>
<td>SPDR Dow Jones Industrial Average</td>
<td>QQQ</td>
<td>80.91</td>
</tr>
<tr>
<td>Market Vectors Gold Miners ETF</td>
<td>GOQ</td>
<td>23.69</td>
</tr>
<tr>
<td>PowerShares QQQ Trust</td>
<td>QQQ</td>
<td>87.54</td>
</tr>
<tr>
<td>SPDR S&amp;P 500</td>
<td>SPY</td>
<td>109.25</td>
</tr>
<tr>
<td>SPDR S&amp;P 500 Financial</td>
<td>XLF</td>
<td>42.29</td>
</tr>
<tr>
<td>SPDR S&amp;P 600</td>
<td>XLE</td>
<td>89.59</td>
</tr>
<tr>
<td>SPDR S&amp;P 500 Consumer Staples</td>
<td>XLH</td>
<td>56.88</td>
</tr>
<tr>
<td>SPDR S&amp;P 500 Energy</td>
<td>XLF</td>
<td>23.26</td>
</tr>
<tr>
<td>SPDR S&amp;P 500 Financial</td>
<td>XLE</td>
<td>89.59</td>
</tr>
<tr>
<td>SPDR S&amp;P 500 Healthcare</td>
<td>XLH</td>
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<tr>
<td>SPDR S&amp;P 500 Utilities</td>
<td>XLU</td>
<td>41.17</td>
</tr>
<tr>
<td>Vangaurd FTSE Emerging Markets</td>
<td>VWO</td>
<td>40.17</td>
</tr>
</tbody>
</table>

On the table I have highlighted those ETFs (in red) that started off the first day of the quarter by closing below their new quarterly pivots. Those highlighted in green closed, on April 1, above their new quarterly pivots. Several of the ETFs could rally enough by the end of the week to close back above their quarterly pivot levels. This makes Friday’s close, and the reaction to the unemployment report, even more important. It would take a severe decline on Thursday and Friday to drop many of the ETFs below their quarterly pivots.
As I have discussed in prior articles, the Spyder Trust (SPY) did not have a weekly close below its quarterly pivot in 2013. On the chart, line a, represents the fourth quarter pivot for 2013, which was at $167.72. In early October, SPY had a weekly low of $162.92 but rebounded sharply to close the week at $168.60.

For the first quarter of 2014, the pivot was at $177.97, line b. The daily chart insert shows that the sharp drop, on Monday, February 3, took the SPY well below the quarterly pivot, as Wednesday’s low was $172.95. There were signs at the time that this could be a panic low, as it increased the bearish sentiment and the ARMS Index hit an oversold extreme.

The SPY was able to rebound by the end of the week at $178.89, which was well above the quarterly pivot. The 20-week EMA, which has provided good support over the past year, was sharply violated during the early February drop, but not on a closing basis.

For the second quarter, the pivot is at $183.25 with the R1 resistance at $192.79, which corresponds nicely with the upside target from the recently completed trading range. The rising 20-week EMA is at $182.72.

The PowerShares QQQ Trust (QQQ) opened the New Year by closing the first week of 2014 well above the quarterly pivot at $84.09, line a. In early February, the QQQ dropped as low as $83.20 on February 5, but closed the week at $86.74. As I suggested last October, one way to avoid panic selling is to “Avoid the Noise, Watch the Numbers,” which was referring to the quarterly pivot levels.

On March 7, the QQQ hit a high of $91.36, which was not too far below the quarterly R2 resistance at $91.83, line b. For the second quarter, the pivot stands at $87.47 with the S1 support at $83.59. On the upside, the R1 resistance is just slightly above the March high at $91.56.

As of the close on Wednesday, April 2, the daily studies for the QQQ are still negative but have turned up. I pointed out last month that the daily relative performance had turned negative and, subsequently, the weekly RS line also dropped below its WMA. The weekly and monthly OBV are still clearly positive.

The biotechnology sector was the hottest sector for most of the first quarter, as the iShares Nasdaq Biotechnology (IBB) ended 2013 at $227.06 and closed on February 25 at $273.20. This was a rise of 20.3%. Subsequently, IBB dropped sharply to a low of $228.68 in late March. It ended the quarter with a gain of just over 4%.
The chart shows that the quarterly R1 and R2 resistance levels were both easily exceeded, as the rally topped out just below the R3 resistance at $276.50. The trend line resistance on the daily chart, line b, was tested as IBB was topping out.

For the second quarter, the pivot stands at $244.70, which is not too far above the April 2 close at $241.60. On a weekly close back above the quarterly pivot, the R1 resistance for the second quarter stands at $267.10.

It has been a tumultuous past two quarters for gold and the gold miners as they started the last quarter of 2013 below the quarterly pivots. For the week ending October 18, both closed back above the quarterly pivots, but the signals did not last long.

The chart of the SPDR Gold Trust (GLD) shows the move above the quarterly pivot at line a, and then the drop below it two weeks later. The ensuing nine week decline took GLD to a low of $114.50, which was just below the quarterly S1 support at $115.04 (see table).

For the first quarter of 2014, the pivot, line c, was at $120.67, which was overcome on Friday January 17 as GLD closed at $120.93 (see arrow). Over the next eight weeks, GLD rallied to a high of $133.69 on March 14 and was up 15% for the year. GLD easily overcame the R1 resistance at $126.89 by the middle of February.

The decline from the highs has been equally sharp. On April 1, GLD closed at $123.39, which was below the second quarter’s pivot at $124.80. It did have nice gains of just over 7% for the first quarter, but gave up over half of its gains. It could rally back above the pivot by Friday’s close.
As I have noted previously, the weekly OBV on GLD did form a bullish divergence at the December lows that was confirmed by the move above the prior high. The weekly OBV is declining but is still well above its rising WMA. The daily studies are still negative but are now trying to turn higher. I attempted to buy the pullback but it has been sharper than expected, as the 50% Fibonacci support levels have been violated and my stops were hit.

The Market Vectors Gold Miners (GDX) also tested the 61.8% support but it gapped higher on April 2 on heavy volume. It may close the week back above its second quarter pivot at $24.30.

After breaking out above 12 year resistance in March 2012, the Select Sector SPDR Health Care Sector (XLV) has been a market leading sector. I have included the quarterly pivot levels for all of 2013, as they are labeled as lines a through d.

The fourth quarter pivot (line d) was only briefly violated in October of 2013, as XLV hit a low of $49.58 and was below the quarterly pivot of $50.22. But XLV reversed sharply to the upside by Friday, closing the week at $51.23.

The corrections over the last fifteen months have also held above the rising 20-day EMA, though it was often tested on the corrections (see arrows). The weekly OBV has held well above its rising 21-week WMA since late 2012, as it shows a pattern of higher highs, confirming the price action. Even though the volume was heavy last week, as the biotech sector was hit hard, the OBV has not yet come close to its WMA.

In the first quarter of 2014, the pivot stood at $53.58 and XLV had a low of $54.65 in early February. For the second quarter, the pivot is at $57.88 with XLV currently trading above $59. The R1 resistance is at $61.11, which is about 4% above current levels.
The path for the Select Sector SPDR Financial (XLF) was not quite as clear in 2013. During the second quarter of 2012, the pivot at $17.57 (not shown) was broken by a few cents, but XLF did not have a weekly close below it. The ETF stayed well above its third quarter pivot, line a, during last summer. Then, on Friday, October 4, XLF closed at $20.05 which was just below the fourth quarter pivot (line b) at $20.11. The following week, XLF rebounded to close at $20.31 and back above its pivot.

There was also quite a bit of volatility in the first quarter of 2014, as the pivot at $21.07 (line c) was violated at the end of January when XLF closed at $21.06. As was the case in October, XLF quickly rebounded and closed the next week at $21.29.

For this quarter, the pivot is at $21.83, which is about 2.6% below current levels. The quarterly R1 resistance is at $23.16, line d, with the weekly starc+ band at $23.28. This is the next potential upside target as $23.16 is about 3.6% above current levels.

As I have mentioned previously, you can easily calculate the quarterly pivots using either a spreadsheet or one of the many on line pivot calculators like the one provided by John Person.

During your weekend, review your positions, you can then compare the week close to the quarterly pivot levels. For new positions, you can look for those stocks or ETFs that are giving positive daily technical signals at their quarterly pivots.
Picking Stocks in Non-Trending Markets

MoneyShow’s Tom Aspray demonstrates how you can use a popular indicator to identify changes in a trend’s momentum, which can help you identify opportunities and better manage your positions.

With half the year almost over, there are many different opinions about how the stock market might finish the year. One thing that both retail and professional investors and traders can agree on is that the choppy market has made it difficult to make money.

Many of the top hedge funds saw double-digit losses in the first quarter and the preliminary data on the 2nd quarter does not look much better. Of course, many were heavily invested in what is referred to as momentum stocks and suffered as a result.

One of the many fine technical tools that Welles Wilder developed can be quite useful in non-trending markets. This is the Average Directional Index (ADX), which can be used by itself or along with the Minus Directional Indicator (-DI) and Plus Directional Indicator (+DI).

They are all included in one of the classic technical analysis books, New Concepts in Technical Trading Systems, by Welles Wilder. Though I do not feature it in my daily columns, I have used the ADX since the mid-1980’s. I have found it to be quite useful as part of the stock selection process as well as in managing stops.

This weekly chart of the Spyder Trust (SPY) includes the 14-period ADX along with a 21-week WMA. Below this, I have also included my standard OBV along with its WMA. Many analysts use an ADX reading of either under 20 or under 25 to identify non-trending markets.

I have found that chart analysis and a 21-period WMA can be even more effective especially when used on weekly and monthly data. I look for the break of a long-term downtrend in the ADX then can go back a year or more to signal a change from non-trending to trending. This trend line break is then confirmed by the rising 21-period WMA.

One needs to remember that the direction of the ADX line is not correlated with the direction of prices. A rising ADX that is above its WMA indicates the market is trending but other tools are needed to determine what direction the market is trending. The ADX just gives you a reading on the strength of the trend.

Prior to breaking its downtrend, the ADX will often drop to 15 or lower. In September 2012 (line 1), the downtrend was first broken after the ADX reached a low of 13 as SPY surpassed the spring highs (dashed line). The ADX rallied to 15 before the LCD sell signal in key stocks like Apple, Inc. (AAPL) took the entire market lower.
By the middle of November 2012, the SPY was close to its weekly starc-band (point 2) and the ADX was still below its WMA. With the fiscal cliff scare, December 2012 was a choppy market as the most significant bullish factor noted at the time was the new high in the NYSE Advance/Decline line on December 12.

In January 2013, the ADX moved above its WMA and had surpassed its prior peak, line b, by the end of the month. This indicated that the market had entered a trending phase. For the next few months, the ADX line stayed well above its sharply rising WMA, which was a sign of a strongly trending market.

The weekly OBV broke through its resistance (line d) ahead of the ADX line and was leading prices higher. In August 2013, the ADX line formed lower highs and then started a new downtrend by forming lower lows. A longer-term downtrend was established as the ADX peaked at 24 in late 2013 and early 2014 (line 3).

This action made it unlikely that stocks were going to be trending in the 1st quarter as a more choppy market was expected. The drop in the ADX line below its WMA was further confirmation that this was a non-trending market. The series of higher highs in the OBV indicated that the major trend of the S&P 500 was still positive even though it was not a trending market.

I have found that the daily ADX analysis is primarily useful to short-term traders and can also be used on an intra-day basis. A daily chart of the SPY will illustrate this point. From July through October 18, the ADX line was quite choppy though it did surge for a few weeks into November as the SPY had a nice rally.

The downtrend from November, line a, was finally broken as stocks were topping in the latter part of January, signaling that the market was trending lower. The ADX peaked in early February when the Arms index confirmed we had seen a panic low.

The ADX line has been in a well-established downtrend since early February but the downtrend, line b, was broken two weeks ago. Therefore, we may now see a move into the trending mode. The long-term uptrend in the daily OBV, line c, was tested in early February. The OBV diverged from prices through much of March but the downtrend (line d) was broken in late April, signaling the recent rally.

Let’s look at some examples of the ADX formations that are consistent with a change from non-trending to trending. Netflix, Inc. (NFLX) has had quite a few wide swings over the past three years.
Often, the ADX line will form significant peaks in the 55-60 area as NFLX did in February 2011 as it was testing the weekly starc+ band (see arrow). After a sharp four-week correction, NFLX again turned higher eventually peaking in July as the OBV (not shown) did not confirm the new highs. The ADX line had been below its WMA and forming lower highs for almost four months before the stock made its high. The peak in the ADX was not a reason to sell but it was a reason to use tighter stops than when NFLX was trending strongly.

The ADX formed a double bottom formation between April and November 2012. The ADX line moved above its WMA in early January of 2013 as prices were trading in a tight range between $84 and $94 (circle c). The ADX surpassed its prior high and resistance (line b) as NFLX surged to the upside. The downtrend in the ADX (line a) was not broken until early March when the stock was trading in the $180 area.

In early February of 2014, NFLX tested its weekly starc+ band for several weeks (point 1) but the ADX line had already dropped below its WMA (point 2). The lower weekly close in March started what turned out to be a 30% drop. Even though the stock has rebounded recently, the weekly ADX is currently not trending.

Amgen Inc. (AMGN) has been one of the hottest stocks of the past three years. The weekly chart shows that it established a trading range (lines a and b) from late 2008 until mid-December of 2011 when it staged an upside breakout (point 1).

The ADX line shows a clear downtrend from the 2008 high that connects with the high in 2009. In late 2010 and early 2011, the ADX dropped down to 9 before it moved back above its WMA. The downtrend was broken in May as the ADX line began a new uptrend.
The ADX dropped below its WMA in October but turned higher before the end of the year as AMGN was testing its flat 40-week MA. The uptrend in the ADX (line d) was clearly established in early January as AMGN was trading around $65.

By November of 2012, the ADX was peaking at 49 and the weekly starc+ band was being tested. The stock again dropped down to its rising 40-week MA as the ADX dropped well below its WMA. The stock and the ADX soon reversed to the upside as the ADX line hit a high of 48 in May of 2013. The stock continued higher but in November, with the stock near $120, the ADX line formed lower highs, line e, and soon completed its top. The uptrend in the ADX (line d) was broken at the end of 2013, line 2. AMGN finally peaked in March at $128.96 as the stock had gained another $15 per share after the uptrend in the ADX line was broken. The ADX line is still falling sharply.

Another widely followed and often widely shorted stock has been Keurig Green Mountain (GMCR). The ADX line formed the classic pattern, line b, between September of 2011 and July 2012. The ADX dropped to a low of 17 in November 2012. GMCR surpassed its weekly swing high, line a, at the end of November, and four weeks later, the ADX broke its downtrend (line b). GMCR was testing its starc+ band, but as I have discussed previously, when a starc band is tested the stock can either move away from the band or move sideways before the trend resumes.

Even though some might have thought at the time that the big move had been missed, the insert (box d) shows that GMCR actually traded in a tight range for many weeks as it continued to find support in the $38.73-$38.83 area before it resumed its sharp uptrend. This allowed for a good risk/reward entry in a trending market and the stock doubled in the next six months.

By August of 2013, the ADX line failed to make new highs with prices, line c, as GMCR again moved back to its starc+ band. When one sees a three-month divergence like this, it is often a good time to take some profits or to start using much tighter stops. GMCR proceeded to drop over 30% in 11 weeks.

The ADX line is trying to bottom out above 25 and a move back above its WMA and the recent high would signal that it is trending once more.
One of the major averages that has been making new highs this year is the Dow Jones Transportation Average as the iShares Transportation Average (IYT) is up 10% YTD, which is more than double the performance of the Sypder Trust (SPY). In the following examples, I will look at some of the 2014 recommendations using relative performance analysis along with the ADX.

The weekly chart shows a solid uptrend in IYT going back to the late 2012 lows, line a. On January 13, it was recommended because of its daily relative performance had just surged to the upside and the OBV was positive.

The weekly RS line had broken out of its trading range last fall. The RS line shows a solid uptrend, line c, and has recently been very strong as it moved well above the resistance at line b. The ADX line broke through the twin peak downtrend, line e, in November as the ADX line was well above its WMA. The ADX line turned lower in late January as IYT tested its 20-week EMA. The ADX line dropped below its WMA in mid-February but now looks ready to close back above it this week.

Of course, if a sector has positive relative performance and is trending, then the stocks in this sector should be focused on for stock picking. Landstar Systems (LSTR) was recommended at the same time as IYT as the weekly relative performance had just broken its downtrend, line b (see arrow).
LSTR broke through major resistance, line a, in March and has since accelerated to the upside. It tested the rising 20-week EMA several times prior to the recent surge. The relative performance continues to make higher highs after recently dropping back to test its rising WMA.

The weekly ADX line broke its downtrend, line c, last August and its WMA gradually turned higher. The move above the October high (line d) in early January was a sign that the stock was starting to trend higher. The ADX is still in a clear uptrend, line e, and is close to making new rally highs this week. So far this year, LSTR is up 13.6%.

The ADX is included in most Web-based charting systems, and I think you would find it useful in your stock selection, as well as your stop placement. When a stock has a good rally, the question is always do you use a stop under the last major low or one that is just under a minor swing low?

We all have had the experience of using the tighter stop only to be just barely stopped out and then have the stock surge much higher. On the other hand, sometimes when you are using a wide stop to keep you in the trade, you wind up giving back too much of your hard-earned profits.

Using the ADX can help increase the odds in your favor because if the weekly ADX is still rising strongly, a wider stop could be used until there are signs that the ADX is topping out. If the ADX line has topped out, then you should be looking to take profits on strength and use a tighter stop to protect those profits.

This, of course, will not always keep you out of trouble but I think you will find it a very useful technical tool. Before you look to the ADX, use relative performance analysis to find market-leading stocks and on-balance volume to determine, which ones are being accumulated.
Advanced Entry Techniques for Any Market

*Often times, money is lost in a trade or investment because of entry levels, therefore, MoneyShow’s Tom Aspray stresses their importance by sharing several techniques to implement before making your next trade.*

In analyzing thousands of trades and investments, I have found that many lose money because of their entry levels, not because of what they are buying or selling. This is, of course, also directly tied to a lack of any consistent risk management strategy.

Before making any investment, it is critical that you determine where your stop would go on either the long or short side. Based on this level, and where you are planning to enter the market, you can then calculate your risk.

By doing this calculation, you are likely to find that sometimes the risk is 8-10% or more. That is too high a risk, in my opinion, as a string of losers will quickly drain your account. Even one or two big losers a year can drastically reduce your chances of being profitable.

Regular readers of my daily columns know that I always give specific entry levels for my recommendations that are tied to the stop loss. Unless you are just buying a couple of hundred shares of a stock that trades over a million shares per day, you should always use a limit order.

If you use limit orders then the “market is rigged” chant of Michael Lewis’s massive publicity campaign is not a concern, as I have expressed previously. With a limit order you have agreed on the price no matter how it is routed.

In the first example I will look at the **Spyder Trust** (SPY), which I recommended on Monday, March 31 (point 1). The futures were trading sharply higher early Monday and the S&P 500 A/D line had turned positive at the end of the previous week, point 2. It looked as though the March trading range was going to soon be resolved to the upside.

The second quarter pivot, with just one day left in the first quarter, was calculated at $182.74, which also corresponded to the March 15 low. Using the March 21 high of $188.21, the 38.2% support was at $181.99 with the 50% support coming in at $180.11.

After this analysis, I concluded that a stop needed to be under $180 so I used $179.77 as a stop. In the first hour of trading, the SPY had a high of $187.18 so I recommended going 50% long at $186.08 and 50% at $183.96, with a stop at $179.77 (risk of approx. 2.8%).
Just before noon, the hourly chart of the SPY showed that it dropped down to a low of $185.52, filling our initial 50% buy order at $186.08. The SPY closed the day at $187.01—which was the start of a wild week. The SPY hit an intra-day high at $188.80 on Friday and tested the hourly starc+ band (see arrow) before reversing to the downside and closing the week at $185.51.

On April 10, the second 50% buy at $183.96 was hit as the SPY had a low of $182.06. The following day, the low was $181.31, which was still well above the stop. Certainly, the rapidness of the reversal was a surprise but the S&P 500 A/D line (see Fig. 1) was holding well above the support, line b, from the March lows.

On Tuesday, April 15, the SPY triggered a high close doji buy signal. The following day, the A/D line broke its downtrend, line c, as noted on Fig. 1 (point 3). Once the $190 level was overcome in June, the stop was raised to $185.93, which was above the average entry price of $185.02.

Expedia, Inc. (EXPE) was recommended on Thursday, May 29 as earlier in the week the relative performance had broken its downtrend and moved well above its WMA. The previous week (point 2), the on-balance volume (OBV) had moved above its short-term resistance at line b and this was a sign of accumulation.
The stock had gapped higher after the Memorial Day weekend so a stop under the prior week’s low of $68.96 seemed appropriate. The high for the week was $73.52 and, therefore, I recommended that you go 50% long Expedia (EXPE) at $72.41 and 50% at $71.44, with a stop at $68.96 (risk of 4.1%).

The prior day’s low had been $72.31 and the quarterly pivot was at $72.10 so I wanted to buy a bit above these levels at $72.41. The weekly high for the week ending May 9 was $72.43. I also looked at the ranges of the prior two days (see circle) which had a mid-point of $72.70.

For the second buy level, I chose $71.44 which was just above the 20-day EMA at $71.20. EXPE made a short-term high on Monday, June 2 at $74.45 and then corrected the next two days. The correction low was $72.21 which was just above the 20-day EMA at $72.02 and the initial buy order was filled.

EXPE had a high on June 19 at $80.49 and, on a move back above $78.60, I would raise the stop to $73.12.
**Lennar Corp.** (LEN) was also recommended in the same daily column. It was one of my favorite homebuilder picks last fall as our longs were stopped out in March for a 22.5% profit.

One of my favorite entry techniques is to look at the prior week’s range. As noted on the chart the week ending May 23, LEN had a high of $40.66 and a low of $37.76 so the weekly range was $2.90.

The weekly chart of LEN showed that it had just triggered a weekly HCD buy signal as it closed above the prior week’s doji high of $40.44. The weekly OBV had moved strongly above its WMA the prior week (point 1). This was, therefore, a very strong market.

Looking at the weekly range of $2.90 (high-$40.66, low-$37.76) and subtracting 1/3 ($0.96) from the high gives you $39.70. The quarterly pivot was at $40.09 with the rising 20-day EMA at $39.19. The week’s low was $37.76 so I used a stop at $37.46, which was 0.8% below the week’s low. Therefore, my recommendation for **Lennar Corp.** (LEN) was to go 50% long at $39.70 and 50% at $39.30 with a stop at $37.46 (risk of 5%). Since LEN was recommended, the low has been $40.01. If the market had looked less strong, I would have picked an initial entry that was just above the weekly mid-point of $39.21.

The weekly OBV (not shown) is ready to make another new high this week. Also, both the weekly and daily RS lines are above their MAs and acting positive. Therefore, I Tweeted a new recommendation before Thursday’s opening to go 50% long at $41.44 (just slightly below the close on 6/25) and 50% long at $40.81 with a stop at $39.44 (approx. risk of 4.1%). The stock opened at $41.81 and traded as low as $41.00 by mid-day.

On June 4, I recommended **Altera Corporation** (ALTR) as it had just generated an Aspray’s OBV Trigger (AOT) buy signal as the OBV moved back above its rising WMA. The prior day (point 1), ALTR closed at $39.38, which was well above the 20-day EMA at $33.09. The chart and technical studies looked quite positive and the prior day’s range was $0.49 and, therefore, $0.25 cents below the day’s high of $33.48 was $33.23.

I also looked at the twin dojis that were formed several days before I made my recommendation (see boxed insert) as, on both days, ALTR closed at $33.25. The prior three week low was $32.05 so my stop was placed at $31.79.

Therefore, my recommendation for **Altera Corporation** (ALTR) was to go 50% long at $33.27 and 50% long at $32.75, with a stop at $31.79 (risk of 3.7%). The recommendation was tweeted before the open and ALTR opened at $33.21 so the initial buy level was hit.

**ALTR** hit a high last week of $35.32 and is now pulling back. The strength of the next rally will be important as a failure to make another new rally high will be a signal that I should reduce my position.
Alcoa Inc. (AA) was an early February pick as the very high readings in the ARMS Index reflected panic selling in the stock market. The daily chart showed the sharp rally in AA from the January 10 low of $9.77.

Just seven days later, AA had reached a high of $12.26 and formed a doji. The following day (see chart) a LCD sell signal was triggered. The stock quickly dropped to the short-term 38.2% Fibonacci support at $11.31, and ten days after the high, the 50% support at $11.02 was also violated.

AA came up in my monthly scans and closed on Friday January 31 at $11.45. I thought that a wide stop at $9.88, just below the January 13 low, needed to be used. Therefore, for Alcoa AA, I recommended going 50% long at $10.86 and 50% at $10.24, with a stop at $9.88 (risk of approx. 6.3%). This was a higher risk than I normally like to take but it looked as though AA could be forming a major bottom and I had been bearish on the stock for some time.

Five days after the column was released, AA dropped to a low of $10.81 but then closed the day at $11.04. The stock gradually began to climb and the OBV broke through resistance, line a, on February 19. This provided further evidence that the uptrend had resumed and, eventually, AA hit a high in early March of $12.35.

Later in the month, I did not like the short-term action so I Tweeted a recommendation on March 20 (point 2) to sell one-third of the position on the opening. This was filled at $11.80 for an 8.6% profit and I also then raised the stop to $11.35. This locked in a profit on the entire position. This week, the stock hit a high of $14.79 and may look to sell another one-third of the position at higher levels as it is up 33.4% from the entry level.

Often times, the stock or ETF will just run away from my buy levels but I try to never chase a market as it makes the risk too high. Sometimes the market will move higher for a week or more but then drop back to the buying level several weeks after it was recommended.
On June 16, I recommended Chevron Corporation (CVX) as it had closed the prior week strong (point 1) at $127.76. This further confirmed the breakout above the resistance at line a.

The relative performance had already overcome the resistance at line c, which was consistent with the price action. The RS line was well above its rising WMA and the weekly RS analysis continued to indicate it was a market leader.

The daily OBV also was positive as, after a slight pullback to its WMA (see circle), the OBV turned up sharply. The weekly OBV on CVX (not shown) had been above its WMA since late March.

My analysis indicated that a stop needed to go under the June 3 low of $121.72 so $121.47 was used. My recommendation was to go 50% long at $125.86 and 50% long at $124.66, with a stop at $121.47 (risk of approx. 3%).

CVX opened slightly lower the day it was recommended but closed strong and hit a high of $132.40 at the end of the week. The stock is currently correcting and I would stick with my original buy levels for now.

Hopefully these examples demonstrate that I look at a number of different variable in determining entry level. Examining the prior week’s action is often quite helpful, which is why I always do a considerable amount of research each weekend. I would suggest that, if you are serious about your results, that you consider doing the same.

Once you have come up with a list of stocks or ETFs to buy, examine each one to determine where your stop will be. Then look at the prior week’s range to determine the 33% and 50% levels.

Also, take a look at the prior week’s opening before moving on to the daily charts. Determine the daily chart support levels, including the 20-day EMA as well as any Fibonacci retracement support that might be relevant. This approach was discussed previously in Profiting From Fibonacci Entries and Exits.

The analysis of both the monthly and quarterly can often confirm, or help you refine, your entry levels. I favor a two stage buying approach in most instances so once your entry levels have been determined, calculate your risk. This process may eliminate some of your buy candidates but keep them on your watch list with a price alert. If they hit your buy level you will then have the opportunity to review your analysis and conclusions.
Mastering the Basics of Stop Placement

Prior to the financial crash of 2008 there was an ongoing debate between fundamental and technical analysts as to whether investors or traders should use stops. The severity of the decline convinced many that stops should be used, according to MoneyShow’s Tom Aspray.

I have always advocated placing a stop order at the same time as your buy or sell order. It allows one to roughly quantify the risk of any investment or trade. By analyzing the risk it often becomes clear that the risk is too high. One of the most common mistakes is to raise the stop instead of lowering the entry level. If you are going to adjust the parameters in order to lower the risk focus on changing the entry not the stop.

In addition to the process of determining the initial stop, it is important to also manage the trade once a position is established. This is an art more than a science as every price pattern has subtle differences. Though I follow a systematic approach, the rules are not cut and dried. Clearly when to sell is an important decision in terms of managing one’s portfolio and can be the key factor in determining whether you are profitable or not.

Those who follow my daily column have been able to follow both the placement of the initial stop as well as how the stops are managed once a position is established. Because of time and space constraints the specific details of the stop choices are generally not provided. The goal of this lesson is to provide those details, and in the process provide more insight so that you can improve your bottom line.

In this first chart I would like to look at a historical example so I can share some of the basic guidelines that I try to follow. This will be followed by actual examples of trades and stops I have recommended in the past year.

This chart of the Spyder Trust (SPY) covers the period from March 2003 through early August of 2003. On March 12, the SPY made a low of $79.38 but then closed near the day’s highs. The volume was strong that day and increased over the next few days as the on-balance-volume broke through resistance. Seven days later on March 21, there was clear evidence that SPY had bottomed as it had moved well above the highs of the past six weeks on strong volume.

My favored strategy is to buy on a setback after an uptrend has been established. So on March 21, a typical recommendation would have been to go 50% long at $86.06. This was just above the 38.2% Fibonacci retracement support at $85.84 and above the round number of $86.00. The second 50% buy level was at $85.28, which was midway between the 38.2% support and the 50% support at $84.60.
The initial stop would have been at $82.88, which was below the 61.8% support at $83.37 as well as the $83 level. The approximate risk would have been 3.2%. It was also below the low of March 17 ($83.22), which the candle shows was a strong up day. Both orders would have been filled between March 27 and March 31 when the low was $84.40.

The **Spyder Trust** (SPY) made a new rally high on April 7 and when this high was exceeded on April 22 (point 3) the stop would have been raised to $85.82. This was below the previous swing low. On May 5 when SPY closed at $93.03 the stop could have been raised to $87.86, which was just under the mid-April low.

As I have discussed in the past I favor closing out part of any position when I can get a decent profit in a relatively short period of time. This, of course, reduces the risk to your portfolio and also has psychological benefits. To determine the profit taking levels I use a combination of Fibonacci and chart analysis.

In this instance the 127.2% retracement target was at $91.42 but the chart suggested that SPY could move back to the December 2002 high of $96.05. The 100% or equality target could be calculated using the net change of the initial rally from the March lows ($10.50) and adding it to the late March low of $84.40.

This gives you a 100% target of $94.90, which is noted by a red line on the chart. It was hit first on May 12 and would have been a reasonable level to sell half of the position. SPY did move sideways for several days at this level before correcting.

For more on Fibonacci targets see “Profiting From Fibonacci Entries and Exits”

By May 28, SPY had moved to new rally highs (point 5) and the stop would have been raised to $91.29 (red line), which was below the prior swing low as well as the May 2 low.

The 161.8% target at $101.39 was hit on June 6 as the high was $101.40. After a one-day pullback SPY again closed at new rally highs on June 12 (point 6) and the stop could have been raised further to $97.33 (red line). As it turned out SPY peaked three days later and the stop was hit on July 1 (point 7).

On November 1 in The Dow’s Most Overbought Stocks there were several stocks, which showed very positive monthly technical patterns. One was **International Business Machines** (IBM), which had overcome ten-year resistance in 2010. At the end of October (line 1), it closed at a new three-month high, suggesting that a new uptrend had begun.

Therefore I recommended “going 50% long at $178.72 and 50% long at $176.20 with a stop at $164.32 (risk of approx. 7.4%).” The 38.2% Fibonacci support of the rally from the August low to the October high was at $177.79 with the 50% support at $173.86. The mid-October low was $176.25, therefore I felt then that a good area of support was between $175-$178.
On November 25, IBM dropped to a low $177.06 (point 2) hitting the first buy level but not the second. Though the rally in December exceeded October highs the bullish monthly analysis suggested keeping the stop wide (line 3) at $164.32. In early January 2012, IBM dropped as low as $178.38, which was a surprise. After bouncing back to the December highs in early February, point 4, the stop was raised to $178.80, which was just above breakeven point.

By March 1, the uptrend had clearly resumed and the stop was raised further to $186.92 (point 5) as IBM was close to the $200 level. This stop was below the early February low and still quite wide since only a 50% position had been established. On March 16, IBM had a high of $207.53 and four days later the stop was raised further to $193.64 (point 6).

On April 3, IBM spiked to a high of $210.69 but gapped lower the next day, which was a troubling sign. The correction found initial support in the $202 area and with the positive close on April 12 (point 7), the stop was tightened a bit further to $196.46, which was just under the early March lows.

In hindsight, at least part of the position should have been closed out on the rally into early May when IBM had a high of $208.92. The five days of tight ranges were a clear sign that the rally had lost upside momentum. The stop at $196.46 was hit on May 18 (point 8).

The monthly starrc band scan of oversold Dow stocks at the end of November had the Coca-Cola Co. (KO) at the top of the list. KO had traded in a tight monthly range for four months and was retesting the ten-year breakout level from 2011. Therefore I recommended (line 1) to buy at $66.24 or better with a stop at $62.76 (risk of approx. 5.3%). Since KO subsequently split 2-1 on July 10, the prices and stops have been adjusted to buying at $33.12 with a stop at $31.38. The buy level was at the flat 20-day EMA and the stop was under both the August and early October lows (red line) at $31.38.

KO rallied sharply into the end of the year closing just above $35. The following correction lasted until February 15 (point 3) when it looked as though the correction was over. The stop was therefore moved to $33.19, which was below the year's lows at $33.28.

The volume surged in March as the OBV broke through major resistance (line a) and on March 22 (point 4) the stop was raised further to $33.88. The rally picked up steam by the end of the month as it hit a high of $37.19. In December I commented that there was resistance going back to 1998 at $75.44 or on an adjusted basis at $37.72.
The correction held the 20-day EMA as the low was $35.92 so on April 18, I raised the stop to $35.61 as it appeared that KO was ready again to move higher. On May 1, (point 6), which turned out to be the high in the Dow, I recommended selling 1/3 at $38.60, keeping the stop at $35.61. This was under the mid-April lows.

The bounce at the end of May made me nervous as on June 1, just three days before the market formed a short-term bottom I raised the stop to $36.33 (point ), which was just hit on the correction low of $36.28. There was a good opportunity to get back in at the end of June, point 9, but I did not spot it. KO eventually peaked on July 31 at $40.66.

Another stock from the December scan was AT&T (T), which had recently corrected and had support from the prior four months at $27.29. The recommendation (line 1) was to buy at $28.54 or better with a stop at $26.90 (risk of approx. 5.7%). The very attractive yield of 6.8% was also a plus.

The strong action just before the end of the month suggested the rally could go further and I was looking for a subsequent pullback to buy. The stop was below $27.47, which was the lowest low going back to August. It was also below $27, and whenever it is possible, I prefer to place a stop underneath a number like $27 as opposed to just above it.

The low on December 17 (point 2) was $28.51 and by early January the stock traded as high as $30.46. The correction into the end of January held the 50% Fibonacci retracement support of the rally from the November lows to the January highs. The reversal from the lows was positive and on February 1 the stop was moved to $28.88, which was just below the prior swing low.

AT&T had a very nice run for the next two months hitting a high of $31.97 on March 21 (point 4), so the stop was raised to $29.53, which was under the February low. The correction from the highs lasted longer and was deeper than I expected as it reached a low of $30.55 on April 10. This was a test of the 38.2% support from the November low.

Early the next month AT&T had made another new high and on May 7 the stop was raised to $31.18 (point 5), which was below the March high. The stock kept moving higher and on June 1 I recommended selling 1/3 of the position at $34.11 which was filled the following day.

By early July (point 7) the $36 level had been exceeded and the stop was raised to $33.34, which was under the early June low of $33.85. The correction into the end of July had a low of $34.34 as prices once again accelerated to the upside with a high on August 1 of $37.64. A few days after the highs at point 8, the stop was raised to $34.08 just under the previous correction low.
The correction into the early September held above the $36 level and by September 13 AT&T had made a new high at $38.21. The following day I raised the stop to $35.82, which was under the last swing low. As AT&T surged in the latter part of September, I decided to take some additional profits and on October 1 I recommended selling another 1/3 of the position, which was filled at approximately $37.75.

This seemed like a good strategy but since I had only 1/3 of a position and because of its attractive yield of 4.7%, I recommend a lower stop at $34.48 and paid the price as I should not have changed it. As it turned out the remaining position was stopped out on October 24 as all the dividend stocks were being liquidated.

I hope these examples will help you better place you stops and avoid some of the many pitfalls that investors as well as traders encounter. Of course the most important step is the choice of the initial stop and the entry level, which allows you to calculate the risk.

I have found the starc band analysis to be very helpful in keeping me from buying too high, which is a problem for most. The high entry level is often accompanied by a stop that is too tight. Therefore many positions are stopped out just before they move in the direction that was originally expected.