Twitter Thread by TraderLion ■

TraderLion ■
@TraderLion_

There is only one proven way to prevent blowing up your account:

Setting Stop losses.

Properly setting & implementing stop losses will save you millions over your career.

Here's a top down guide with everything you need to know about Stop Losses, broken down step by step ■■

In this ■, we'll cover:

· The Goal of Stop Losses
· How to Place a Proper Stop Loss
· Answers to Frequently Asked Stop Loss Questions
· General Guidelines to Protect Your Account

& tons of examples!

Let's jump in ■

Overall Goal of Stop Losses ■

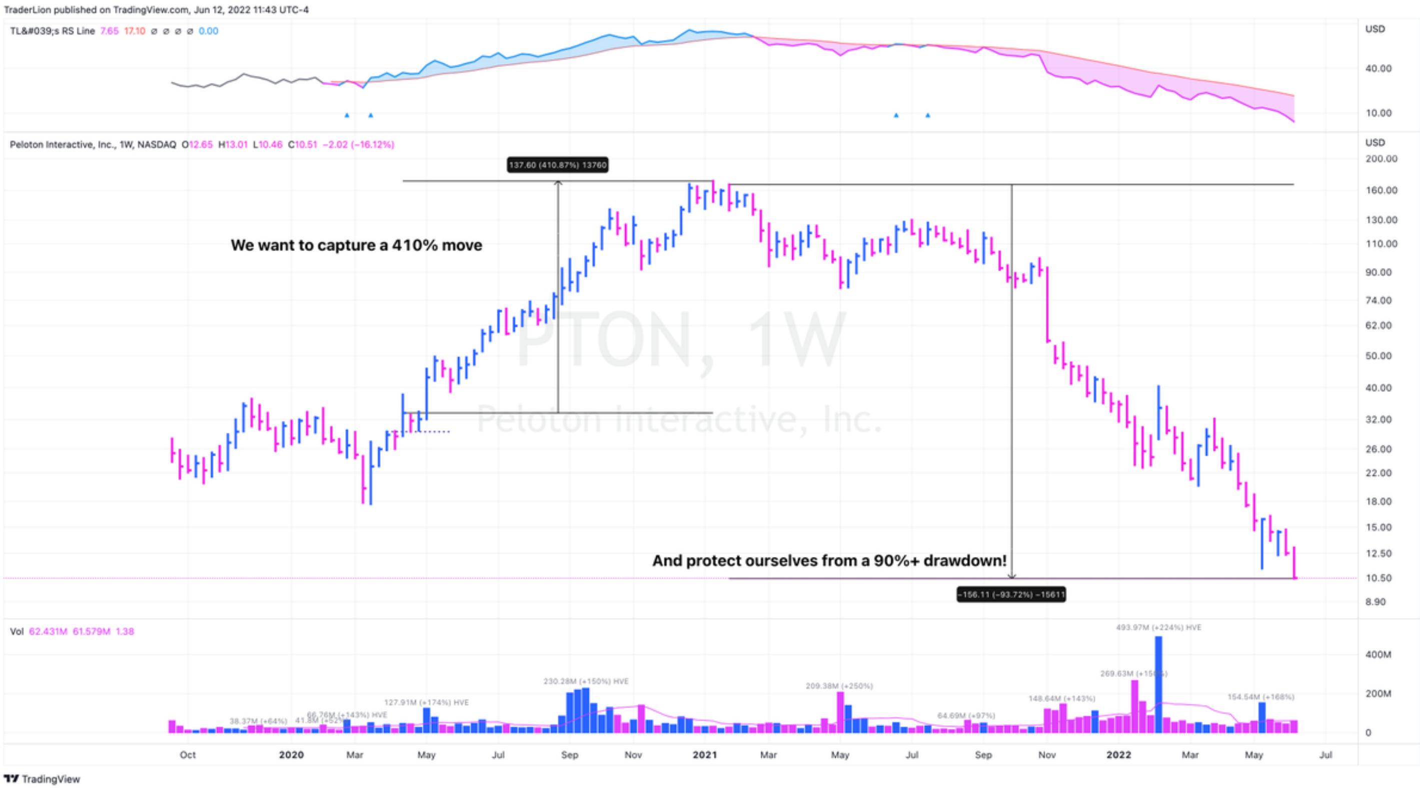
The goal of a stop loss is to cap your downside while maximizing the upside from proven setups.

It is impossible to be correct on every trade you make, so it is very important that you implement stop losses to contain your losing trades!

Let's look at some examples to show you how important stop losses can be:

$PTON (Weekly!)
$TSLA (2020 B/O)

$NVDA (1999 IPO B/O)
$AMPH (Last Week's Action)



In each of the examples above, you could have used proper stop losses to capture massive upside gains & protect yourself from huge downside losses!

Now, where you place you stop depends on many different factors.

■ Your Style
■ Your Timeframe
■ Market Environment
■ Volatility of the Stock
■ Your Recent Performance

Let's break down each, one by one ■

1■■ Your Style

Every trader in the market has a different style based on their personality and goals.

Some traders prefer wider stop losses & smaller position sizes while others prefer tighter stop losses w/ larger position sizes.

Identifying the style YOU want to trade is the most important factor in determining how you will be placing your stop losses.

Another aspect of your style is the type of entry tactic you implement on a regular basis.

These can be grouped into 3 main entry tactics:

· Breakouts
· Pullbacks to Key Moving Averages
· Pivot Retests / Undercut and Rally Setups

You MUST develop rules for each type of entry tactic you implement in the market.

Here are some quick stop loss placement guidelines based on the 3 types we have outlined above:

Breakouts:

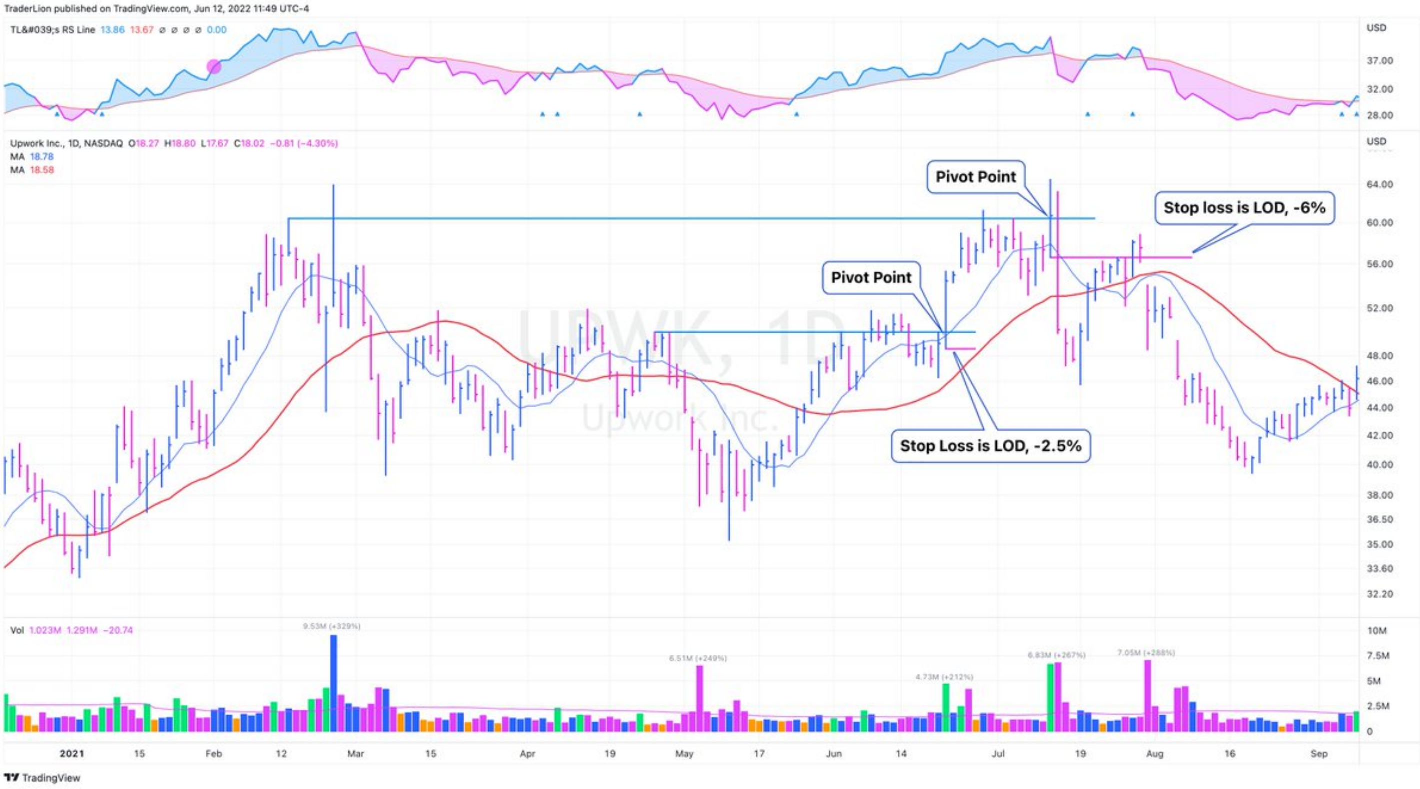
When buying a breakout, you want to make sure that you are not cutting off the stock from having normal price reactions & end up getting shaken out before it reverses higher.

That is why we should be placing our stop losses a couple cents BELOW the...

■ Breakout Day Low
■ Most Recent Swing Low
■ Most Recent Weekly Higher Low

Here are two examples:

$UPWK - breakout day low
$TTD - most recent swing low
$AMD - most recent weekly higher low



Pullbacks to Key Moving Averages (KMAs):

There are usually a lot of eyes on a name when it reaches a KMA, so making sure your stop loss accounts for heightened volatility around these areas is important & ensures that you do not get stopped out prematurely.

There is a simple list of KMAs that should get institutional support in UPTRENDING markets:

Daily Timeframe:

· 10DSMA
· 21DEMA
· 50DSMA
· 65DEMA

Weekly Timeframe:
· 10WSMA
· 30WSMA

When purchasing off of a KMA, we want to see a trend reversal higher on a shorter timeframe before we enter and buy.

Only then can we place our stop loss a couple of cents below the recent low or the key moving average!

Here are some examples of proper stop losses using key moving average pullback buys:

$CSCO ('91) - 30WSMA
$TWLO ('20) - 10WSMA
$QQQ ('20) - 21DEMA

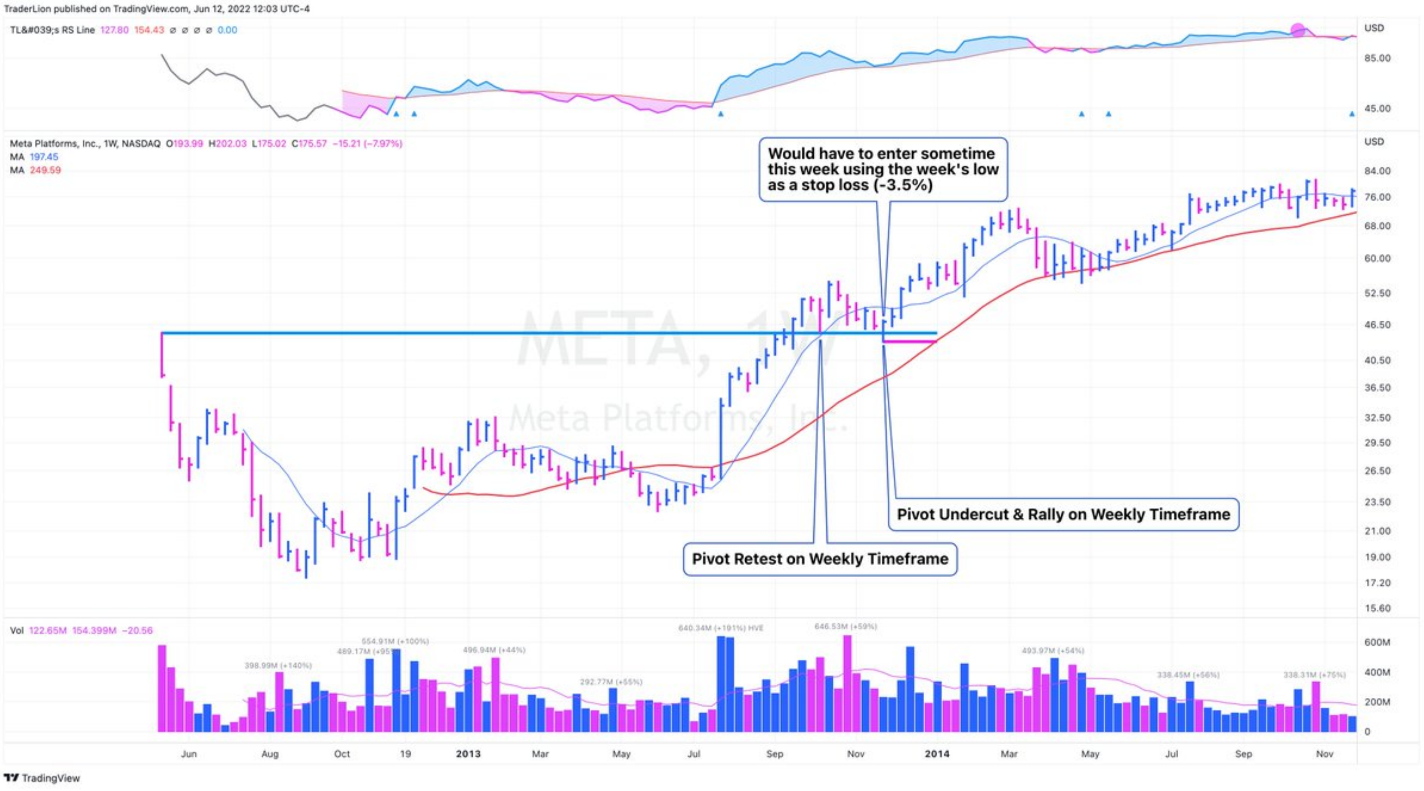
Pivot Retests / Undercut & Rally Setups:

Breakouts are usually very volatile, & as a result have a lot of noise filled with retests and undercuts.

You want to wait until you see a reversal higher on a lower timeframe, and then put your stop a couple cents below this low.

Here are some more examples:

$FB (IPO)
$AAPL ('90)
$MSFT ('90)



IMPORTANT NOTE ON TYPES OF ENTRIES & CORRESPONDING SL'S:

Market environment is KEY!

Buying breakouts/pullbacks in long term downtrends rarely works and no matter your stop loss placement, you are likely to get stopped out.

If you are going to buy to the long side in a downtrend/correction, you must SIZE DOWN & use tighter stop losses!

Let's jump into identifying stops based on timeframe■

2■■ Your Timeframe

Each timeframe is going to have a different tolerance for stop losses.

As a general practice - here is each stop loss percentage you should use:

Position Traders: Max 7% Stop Loss
Swing Traders: Max 5% Stop Loss
Day Traders: Max 3% Stop Loss

Position traders are usually trying to capture larger moves using the weekly chart.

A max 7% stop loss stems directly from William O'Neil's CANSLIM methodology, which you can read more on here ■

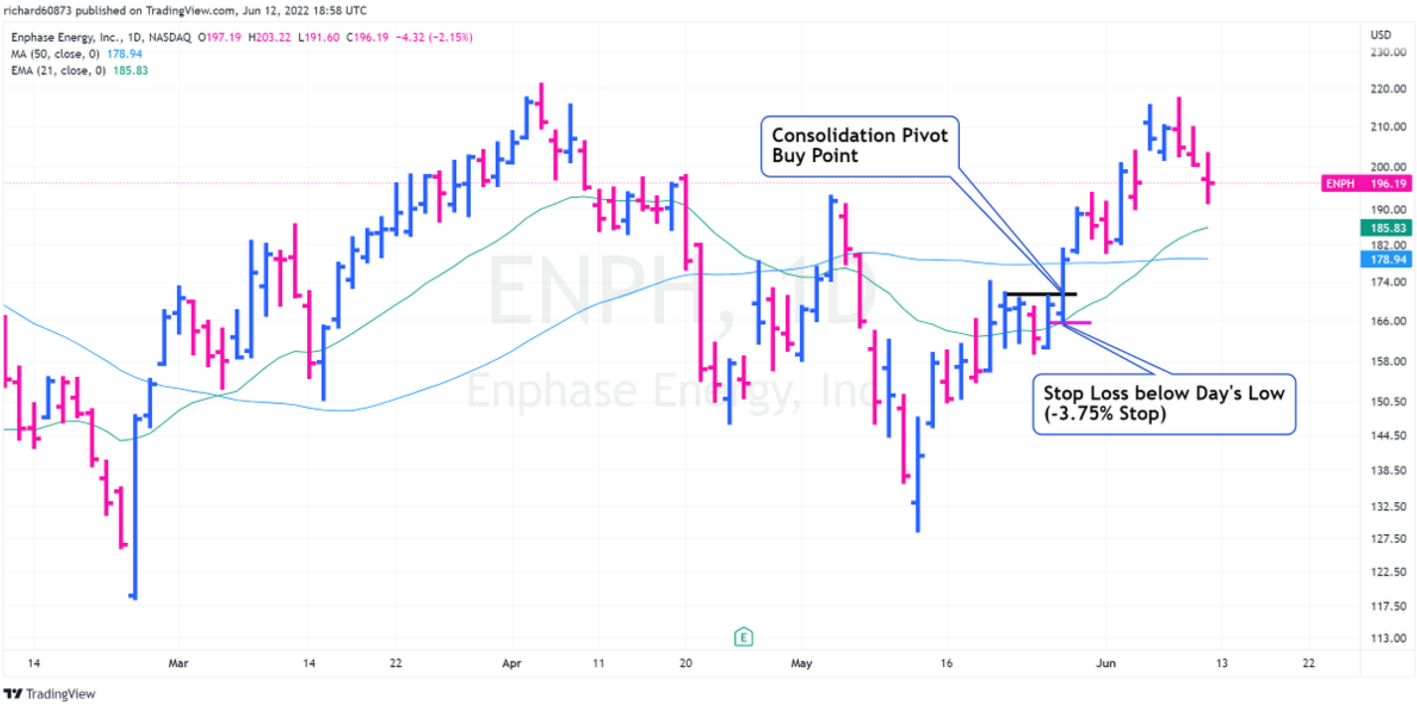
https://t.co/c8jkTaM1B3

An Introduction to CANSLIM (Thread)

— TraderLion \U0001f981 (@TraderLion_) June 5, 2021

Swing Traders are usually executing entries off of the daily chart, which makes finding tighter, logical stop loss areas easier.

Here is an example of a logical stop loss used on a recent consolidation entry with $ENPH.



Notice in the example above how we used the low of the breakout day as a logical stop loss.

No breakout should ever undercut the low of the breakout day, which makes this a logical stop loss.

We'll cover this in more detail later on in the thread!

Day Traders are usually executing off even shorter timeframes, again making a tight stop loss placement obvious based on intraday patterns!

3■■ Market Environments

Having SL rules for each market environment is a very important step in becoming a super performing trader.

There are 3 main market environments in which you should have stop loss rules for each.

■ Uptrends
■ Downtrends
■ Choppy

Here are some simple rules for your stop losses when in up-trending markets:

■ Use KMAs as a guard rail once a good gain is achieved
■ Never let double digit gain turn into a loss
■ Never take more than a 7% loss
■ Proactively sell at 20%+ gain

Downtrending market stop loss rules:

■Proactive sell based on average winner over past 20 trades
■ Protect cost basis as fast as possible
■ Size down & keep stops tighter!

You can't expect your breakout SL rules to work in a downtrend as we all know that breakouts rarely work in downtrends & bear markets!

4■■ Volatility of a Stock

Evert stock you trade will have a different character.

There are many reasons for this but the most important thing to understand is that as a result, each stock will require different stop loss placement to handle the normal swings.

For example, if a stock normally trades in a range of 20% and its tightest period is 7% over a span of a couple days to weeks, your stop loss should be right around 7% on any future purchase.

This ensures that we will not be shaken out by a normal reaction in the name.

If you don't want to buy any stock that has a stop loss of greater than 7%, you have to find names that on average trades less than that range when consolidating.

It's that simple!

5■■ Recent Performance

Your recent performance may be one of the most underrated ways of determining how you place your stop losses.

Let's quickly go over one important metric that you MUST track...

A key metric that you MUST track is your average winner and loser % gain over the past 10-20 trades.

This will tell you everything you need to know about the current market environment & how you need to adapt your rules/style to optimize your performance.

For example, if you know that your average loser has been 5% over the past 20 trades, and you determine that this is too large, you can begin to logically tighten up your stops!

Additionally, if you know your average winner over the past 20 trades is 10%, you can adjust your stop losses placement to ensure that you are meeting your R/R requirements!

Using your data to guide your trading is a KEY trait of super performers in the market.

Now that we've covered

■ The Importance of Stop Losses
■ How to set Proper Stop Losses

We can answer some frequently asked questions ■

■When do you move up your stop loss?

This question largely depends on your risk tolerance & overall market environment.

Here are our guidelines for each market type:

Choppy markets/downtrends: usually at 1-3% gain
Uptrends: usually at 1x your risk

Choppy Markets/Downtrends:

Move your stop loss to breakeven at a 1-3% gain or 1/2 of what your average winner over the past 10-20 trades has been.

The most important thing we need to recognize during poor market environments is PROTECTING OUR COST!

Uptrends:

You can be a little more free as to when you want to move your stop loss to breakeven but as a general rule, move your stop to even once you reach a gain worth 1x your beginning risk.

Let's look at a quick example:

Entry on Stock XYZ: $100

Logical Stop Loss: $95

Risk = 5%

Stock now reaches $105, this would mean you have achieved 1x your starting risk (5%) and it is now time to move your stop loss to breakeven.

It is important not to let your desire to not lose money get in the way of the general movements of the stock itself.

You must give the name time to prove itself to the upside before protecting your cost basis, especially in uptrends.

■ Intraday Stops vs. EOD Stops

This is a very common question.

Here are our guidelines again based on market environment:

Up-trending Markets: End of the day violation.

This is because in uptrends, especially early in the trend, markets usually close strong.

Intraday price movements may be wild to shake out investors & close much higher!

Quick Exception in Uptrends: News Reports

Every once in a while, a stock you own will have a negative news piece come out that creates wild price action.

Instead of waiting until the end of the day, it may be best to cut stock at your pre-planned point.

If the name comes back and closes really strong on huge volume by the end of the day, you can always re-buy!

Choppy Markets / Downtrends: Cut on immediate violation!

This goes for regular stop losses or key moving average stop losses.

In weak markets, it is very easy for price to go much lower during the day and close poorly.

We never want to let a small loss turn into a big one!

Let's move on to some general guidelines for your stop loss placement ■

Proper Stop Loss General Guidelines:

· Use stops to never risk more than 1% of account equity on a given trade
· Psychology is key - always place SL's below where the majority of investors will capitulate
· Tighter stop losses in bad markets
· Never let good gain turn into loss

Reminder Questions to ask before placing a trade:

· Where will my reasoning for entry on a stock be INVALIDATED?
· At what price will the stock hit my max account loss?

These two questions alone are a great guide to always implementing proper stop loss placement!

SOME REMINDERS:

■ Even the best traders ever are wrong frequently in the market!
■ Don't take losses personally. It is all part of the game!

If you've made it this far, here is an extra bonus:

Here are 8 Recent Examples of how Portfolio Manager @RossHaber_ implements stop losses on his weekly Top 10 Report.

$ATEN
$EE
$HCC
$ANET

@RossHaber_ $TSLA
$CVX
$AMGN

$ARES

@RossHaber_ If you want to learn more about the Top 10 Report, click here! ■

https://t.co/MEa2zQIEwX

@RossHaber_ That's a wrap!

If you enjoyed this thread:

1. Follow @TraderLion_ for more threads on the stock market!
2. RT the tweet below to share this thread with your audience
3. Have a great rest of your weekend! ■ https://t.co/YtMzersQ4i

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— TraderLion \U0001f981 (@TraderLion_) June 12, 2022