

>: How to Sell At The Right Time

Thursday, April 19, 2007 / Chris Rowe

WOW!You guys are awesome!

I write for *The Tycoon Report* once a week, and in last Thursday's article "[How to Not Jump the Gun on a Trade](#)", I listed a few exercises to help you avoid that especially common problem that we've all experienced at some point.

I've received hundreds of good questions and positive feedback that are very similar to each other, so instead of singling out a few specifically, I'll just copy and paste the top few.

Below that, I'll write about the exact opposite of last week's article: Exercises for timing [the sell side](#).

Everyone, including the top technical analysts on earth, agrees that picking the right time to sell a stock is at least three times harder than picking the right time to buy, so you're not alone.

First your comments, then my response - a lesson on timing the trade. (And feel free to skip over the readers' feedback, and scroll down to my article - duh.)

1) This has been my biggest trading issue. and it's been eating up inside. Ex; I held 1200 shrs of MTL which I sold at 25.75, it's now over 35. I bought 800 shrs of JSDA at 19.32, panicked and sold it at 18.56; it's now over 28. I was poised to buy 530 shrs of DNDN at a price of 5.22, at 3:40pm on the day before the FDA ruling and froze. I am leaving a lot of money on the table, and I'm sure that I'm not alone.

2) I believe this article is about and for me. I'll have to remember the lesson. Thank you.

3) I have used Chris' past articles, applied to my trading, and have done much better. Will study this one again and again.

4) SIMPLY PUT ARTICLE WHICH AIMS AT THE HEART OF MY PROBLEM RIGHT NOW. VERY HELPFUL. THANK YOU. SJ

5) You have addressed my main problem - thank you for giving positive ideas on how to handle.

6) The article hit home. I have been guilty of not thinking if I miss it, I miss it. It does hurt when you miss it, but I believe he's right on.

7) Yes, you are right. I have had that experience several times. Now I go 50/50 on a purchase after checking the price history for a month. Thanks. Henry

(My personal favorite...)

8) What? You talkin' to me? Well done. Thanks for the advice.

9) As a fairly new swing/day trader, I'm experiencing this exact emotional ride. I retired 7 months ago and have been trading for 5 years. THIS ARTICLE WAS EXACTLY WHAT I HAVE NEEDED!!! Thank You. A. Kennedy

10) This is exactly the mistake I made over the last few months. I did my homework on the stocks I intended to buy. All of them have solid business fundamentals. But I didn't wait until they pulled back further and entered the trade too early just to see the stock price slide further down. Because of solid business fundamentals, they eventually came up to the prices I paid for but my itching finger cost me time which is the money. Best regards, Conrad C.

11) Chris, thank you for this article. I will try the things you mention because I have made money in the past by listening. Go Tycoon!

12) I bought XOM when it was at 36, and it's now at 75 or better ... my only regret was that I only bought 100 shares instead of the 400 I could have bought. But hey, there's always another opportunity on the horizon.

13) What about the other side, holding off too long; either buying or selling? I probably do this at a 5 to 1 ratio compared to being too early.

Okay, folks, I want you to pay extra attention to the last two comments. Number 12 says something brilliant. (*It's funny how sometimes the most obvious statements can be the most important, and the ones that are most easily forgotten.*)

I always remember a long time ago, a smart, and especially successful businessman told me that he doesn't jump the gun on any business deal. He always takes his time to think them through and he never regrets missing any of them, because if there's one thing that he learned in business, it's that if you miss the train as it's leaving the station, don't sweat it, because there is ALWAYS another one coming 20 minutes later.

Think about it. Do you want to take that "movie scene" style flying leap onto a train and risk making a big mess on the tracks, or does it make more

sense to wait until the next train comes?

Learn to accept missing these things. It will hurt, but you will be a better trader. As a matter of fact, when you find yourself kicking yourself and grinding your teeth for missing that "golden opportunity" on a regular basis, that's when you know that you are on your way to being a great trader. Any great trader always has amazing trades lined up, only to see most of them fly away before getting in.

There are always going to be more (and likely better/clearer) stock market opportunities tomorrow. If you always remember that, then you WILL make more money and take smaller losses.

Now, for the inspiration of today's article: Good ole', number 13 (my lucky number).

How to avoid holding off "too long" on selling that stock.

I won't pretend that I am infallible. (Sorry to disappoint you - Now I've shattered my image :-)

Even I have the hardest time picking the *exact* top. When you have sold at the exact top, you have gotten lucky. Accept that you'll almost never sell at the top, and assume that you will usually sell a stock, and then see it trade higher from there. That's it.

You just have to have a set of rules, and those rules should work 7 out of 10 times. Don't focus too hard on any one position.

Now there are several indicators that you can use to assess whether your stock is "over-bought" or not, and I know that I will get a billion reader responses telling me about all of the indicators that I left out.

The fact is that it would take days of lessons or more (and yet more days of review and study) to cover everything. But it's important to remember that you should never use one indicator to assess a situation, rather you should use at least a few in conjunction with one another.

Also, just as important is that you don't use too many indicators. Stick with your five favorite indicators and use one indicator to confirm what another indicator is telling you. Also be sure to pay attention to the chart pattern, looking mainly for violations in support or resistance levels.

The Relative Strength Index (RSI)

The Relative Strength Index was developed by J. Welles Wilder in 1978, and is one of the most helpful, and widely used indicators used by chartists today.

First, it is very important that you don't get this confused with other types of relative strength indicators. This does not have to do with relative strength when compared to the market, or other sectors. It has nothing to do with the IBD "relative strength" rankings, or the sector relative strength readings that Teeka uses to find the favored sectors for ETF Master Trader.

This momentum oscillator is related to the stock's current strength relative to *its own recent strength*.

I will skip the exact calculation today as I know you're busy, and you just want the darn "answers to the test" right? To way-over-simplify, the relative strength of a stock is the average price change of the advancing periods with the average change of the declining periods each day or week, etc. The number is then "smoothed" by using the previous period's average gain and average loss.

When the average gain is greater than the average loss, the RSI rises, and when the average loss is greater than the average gain, the RSI declines.

You can use the average relative strength of any number of time periods (any number of weeks, days, months etc.) but Wilder recommends using time periods of 14. The shorter the time periods used, the more volatile (or sensitive) the reading will be, and depending on your time-frame/objectives, you may choose to increase the number of time periods (whether it be days, weeks, months, etc.,) as shorter readings are more prone to false signals.

Anyway, this number ranges from 0 to 100, and like the NYSE Bullish percent, a reading of more than 70 indicates *overbought* territory, and below 30 indicates *oversold* territory.

If the RSI rises from below to above 30, it is considered *bullish* for the underlying stock, and if the RSI falls from above to below 70, it is a *bearish* signal.

You should also note that while you can use this leading indicator to find *exit points*, like when your stock appears overbought while in an uptrend, it works even better when you first identify the current trend and then find the extreme signal for *entry points*.

For example: You would find a confirmed uptrend, and then use the RSI to find the over-sold levels within the uptrend as an entry point. Conversely, you would use it with a stock in a confirmed downtrend to find the overbought point to initiate a short sale.

average gains are higher than average losses, and a reading below 50 indicates the opposite (and, basically, that the bears are winning.)

Why is this noteworthy? Because many traders consider the RSI crossing over the 50 "centerline" to be an extra confirmation of what the RSI seems to be telling you. At this point, it would help to see this on a chart.

Let's look at some examples:

Below is a chart of Sun Microsystems in late 1999 early 2000. You'll notice that the RSI is highlighted in red in the overbought territory (above 70,) and highlighted in green in the oversold territory (below 30.)

Now remember, stocks can stay overbought for a long time, so while a reading over 70 is considered overbought, it isn't necessarily a sell signal *until the RSI moves back below 70*.

There are different clues here that could have told you that it was time to sell the stock, and look for something with less risk.

First, you can see that from February to March, even though we saw Sun Micro trade higher, the RSI moved lower. This is what we call "Negative Divergence."

Negative Divergence



Reversal from above to below 70

This negative divergence came after the RSI was slightly above 70 (overbought territory.) Negative divergence shows that the momentum is slowing even though the stock is moving higher. Higher moves in a stock's price that are not confirmed by the momentum (in this case RSI) are likely to be followed by at least a slight decline in the stock.

Now you might be staring at this chart and saying to yourself, "Hey, the RSI had already reversed from an even higher point in December '99, to below 70." This is true. But this is typical when a stock takes a breather and trades sideways.

Usually, when we're overbought, either the stock needs to correct by moving lower, or else it needs to trade flat which also allows the average price to catch up to the current price. When you think about what the RSI actually is, this makes perfect sense.

Notice that this is what occurred in that same time period (December-February.) That is why it's important to not only look at the indicator, but to compare that to what the stock is doing. A reading of 50 basically means the momentum is flat.

So again, when a stock stops trading higher, but only trades flat, it is normal for the RSI to move to the centerline.

Another confirmation that the RSI reading was not signaling a sell is that the recent support level (blue line) or 50-day EMA was not violated. Sure, at this point, you want to be extra cautious, but this is not the same as "negative divergence."

After reversing down from overbought territory, the negative divergence did occur, followed by a break in Sun Micro's support level in April, as well as the 50-day EMA. Noticing this and acting could have gotten you out at \$45.00 before the drop to \$35.00.

Now look on the right of the chart where the stock tops out at \$65.00. The RSI drops from above 70 to below 70 and almost immediately drops below 50. If that wasn't enough for you, the RSI dropped through 50 a second time, and even though the stock seemed to try to bounce back up off of the 50-day EMA, the RSI dropped further down. This was another small (unmarked) negative divergence.

This told me to get out above \$55.00 before yet another drop to \$35.00, and eventually to the 3s!

Here are some current examples:

also see the negative divergence from August to September, and then again from mid-September to October.

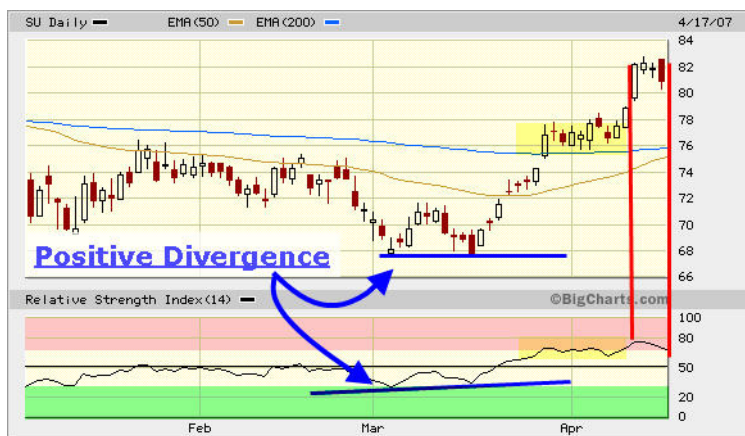


If these signals weren't enough to spook you, the RSI confirmed its sell signal by crossing over the centerline (50), indicating that the bears were definitely in control. If you didn't listen to the RSI when the stock was up above \$25.00, you should definitely have gotten out of the stock when the support level was broken, and the stock moved to \$24.00. You may have been upset that you missed selling at \$25.00, but obviously, you would have saved yourself from the drop to the 17s.

This has been a long article, and my hands are getting sweaty ("Thanks for the visual, Chris!")

One last example. This will be even MORE current.

Here is a chart of Suncor, a stock that members of [The Trend Rider](#) have made a ton of money on.



First take a look at the RSI buy signal in March. You could have bought the stock at \$68.00/share (or the call options which have traded up several hundred percent.) As you can see, after being slightly below 30, the RSI moved higher (showing a higher low) while the stock revisited its same low around \$67.80.

This is a "positive divergence" after the RSI saw an upside reversal from 30. If that weren't enough for you to buy the stock (a double bottom, a positive divergence, and a reversal from the 30 level,) you will notice that after the RSI buy signal, the RSI crosses over the centerline as the stock crossed 70, showing that the bulls were clearly in control.

Now, what if you bought it at \$76.00 in late March because you saw it gap up above its \$75.00 resistance? Cool... The stock moved above \$82.00. But let's look closely. I highlighted in yellow when the stock essentially traded flat. *Usually the RSI would move down near 50 when the stock trades flat (remember the RSI is a momentum indicator).* Even though the RSI, at this point, moved above 70.00, and even slightly below 70, it's no big deal, as it would be normal for the RSI to move even lower when Suncor traded sideways.

The RSI moved even further above 70 to almost 80. What's going to happen next?

That brings me to the next indicator: My crystal ball. I rub it gently and talk to it softly, and the future appears.

No, seriously, this is a red flag. But remember, it isn't a sell signal until the RSI drops below 70. When that happens, you want to look for other

clues to confirm what the RSI is saying.

Does the RSI move down, but the stock trades sideways? If so, heed the warning a bit less.

Does the RSI drop further and cross under 50? If so, then you have your sell confirmation. Either way, the stock is overbought here, based on the RSI. That doesn't mean you should run out and short it, but if you own it, you know what you will need to do.

Again folks, you must learn a few indicators like the back of your hand and then use what's called "synergy" to call shots.

Next week, I'll give you the options strategy for a bullish to neutral stance. I'll bet you can guess what it is.

Chris Rowe fans, tell me what you think, please. Tell me if I'm worthy to teach and market a technical analysis study course. I can go on for days (as you can probably tell by the length of this novel I just wrote.)

The comment link is below... Until next week.

?Profit from the Trend?



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