

Setting Stops for Transactions in Profit Manager

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When to exit a position is an important decision and one that is often more difficult than deciding when and what to buy. The TradingExpert Pro *Profit Manager* application is designed to alleviate much of the difficulty of this decision. It is based on the concept that, at the time you enter a trade, you establish an initial stop and a definite method for adjusting the stop price should the trade move in a favorable direction. Then, TradingExpert Pro takes over and alerts you when a stop is triggered and tells you that it is time to exit.

TradingExpert Pro provides five methods for establishing stops on transactions. At the time that each new transaction is entered into a Profit Manager Account, you select the method that you want applied for that transaction. Regardless of which method is chosen, on the day that a stop is triggered, an alert appears to let you know that it is time to exit that position.

Variable Stop

The philosophy behind any stop system should be “*Cut your losses and let your profits run.*” TradingExpert Pro’s first stop method, the variable stop method, is based on this stock market maxim.

Initially, the stop is set at some price below the entry price (above for short positions). If the position moves in the wrong direction and triggers this initial stop, you are advised to cut your losses by exiting. However, when a position increases in value and a specified profit level is attained, the stop is automatically adjusted to protect that profit. As the position continues to increase in value, you are advised to hold and let your profits run. During this time, the stop level is continually adjusted to protect the increased profit.

Trendline Stop

The second stop method, the trendline stop, can be used to follow a similar approach. With this method, a new stop is computed daily based on trendlines that you have drawn on the security’s chart.

If this is a long position, the first trendline is drawn as a horizontal line a short distance below the entry price. This stop is used to cut your losses should the position move against you. However, should the price move higher, you would then construct a second trendline. This trendline would be drawn with an upward trend at a slight distance below the base of the projected price trend. This second trendline protects your profits.

Fixed Stop

The third stop method is simply a single fixed stop price. With this method, it is the responsibility of the user to adjust the stop price as the position changes in value.

Trailing Stop

The Trailing Stop percentage specifies how much of your principal you want to conserve once the value of a position starts to drop. A stop price is computed daily based on the highest price (lowest for short positions) for the security since the position was entered. The normal range is between 50% and 90%, depending on how much risk you are willing to take. For long positions, the default is a price 10% below the highest price reached since the position was entered. For short positions, the default is 10% above the lowest price.

EDS Rule

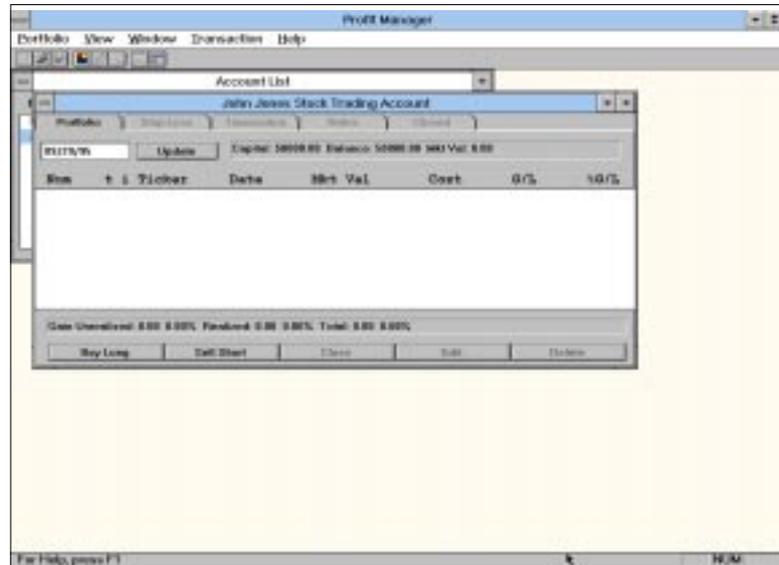
This stop allows you to define your own special technical criteria for exiting positions. You first create the rule that you want to use in the Expert Design Studio application. You can then select that rule for use in stopping out of any position.

Entering transactions into Profit Manager function

When you place an order to buy or sell short, you should immediately enter the transaction into the *Profit Manager* function so that the system can begin to track your position. The procedure for entering new positions into the *Profit Manager* is explained in Chapter VI of the User Manual.

In brief, the procedure is as follows:

1. Set up a position account for your positions.
2. Display the Portfolio Window (double click on the name of the account you have set up).



Portfolio Window

3. Depending on the type of position you are entering (long or short), click either the **Buy Long** or the **Sell Short** command button at the bottom of the Portfolio Window.
4. Depending on which command was selected, the dialog box that appears will be titled *Buy to Open* or *Sell to Open*. The data entry fields for both are identical. These fields are explained in detail in *How to Enter a Transaction*, Chapter VI of the User Manual.

Buy to Open dialog box

5. After entering the ticker symbol, date, price, number of shares, and brokerage fees, you then select one of the five stop methods by clicking the appropriate option button. Depending on your selection, additional entries may be required. For complete explanations of these entries, see *How to Enter a Transaction* in Chapter VI of the User Manual. Or, you can use TradingExpert's Online Help by clicking on the **Help** command buttons in the dialog boxes.

- Variable: If you select this method, you must also enter the three percentage values that are used to compute the variable stop price.
- Fixed: You must also enter the fixed stop price.
- Trailing: You must also enter the trailing stop percentage.
- Trendline: No further entries are required.
- EDS Rule: You must also select the EDS rule to use.

6. Click **OK** and the new position will appear as a transaction in the Portfolio Window.

Important

After a position is entered, you should regularly open the *Profit Manager* application after updating your data to check your Portfolio Accounts. If a stop is triggered, the transaction that has stopped will be shown in red. You can also click the **Stop Loss** tab to view the daily stop price and the recommended action.

Other Profit Manager functions

The *Profit Manager* application has a number of other functions which may be used to perform the following tasks:

- maintain a record of closed positions
- capture year-end tax information
- search for information in multiple accounts
- perform historical testing