WILLIAM O'NEIL INDIA

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SPECIAL ARTICLE

THE HOW, WHEN, WHAT OF SELLING IN EQUITY MARKET:

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The How, When, What of Selling in Equity Market:

- “Defence is the best form of offence”, unless you have a strong defence to protect yourself from large losses, you absolutely can’t win big in the game of investing.
- Always cut short, limit your losses. To do this takes never-ending discipline and courage.
- Lose small and win big, is the holy grail of investing.
- After the stocks gains 20–25%, cut short your losses at 7–8%.

How to be successful in stock market?

Successful investors make many mistakes, and their success is due to their hard work, not luck. They just try harder and more often than the average person. There aren’t overnight successes; success takes time.

When you’re holding on to a big loss, you’re rarely able to think straight. You get emotional. You rationalize and say, “It can’t go any lower”. But, keep in mind that, the stock price can go to zero as well.

Reasons to Sell:

1. **Protect Capital**
   - The 8% sell rule
2. **Lock in Profits**
   - Selling due to weakness
   - Selling into strength
3. **Distribution in the General Market**

1. Protect Capital

As the losses increase, it becomes more difficult to break-even

Loss incurred	To break-even
8%	9%
10%	11%
20%	25%
50%	100%
80%	400%

The above table emphasizes the importance of cutting short your losses. It can be clearly observed that as the losses increase, it becomes more difficult to break-even. We are not talking about making profits here, just break-even.

The importance of cutting losses can’t be emphasized more. To make money in the stock market, one should have good capital size. An investor (Rs 100L capital) with annual return of 20% makes the same money as an investor (Rs 50L capital) generating 40% return on capital (RoC). We all know the difficulty in generating higher RoC.

Hence, to protect the capital, always cut your losses at 8% from your purchase price.

The rationale for the rule is: When you use charts to time buying decision, your stocks rarely fall 8% from purchase price. So when they do, you’ve made a mistake in your selection or a general market decline may be starting.

2. Lock in Profits

Selling on weakness

- **Institutional selling:** Always follow big money. Institutional selling can be observed in spike in volumes. If a stock declines on higher volume, try to exit the stock.
- **Breaking key support:** Support plays a key role in the stock's price movement. Some examples of key supports are 50-DMA, 100-DMA, 200-DMA, and trendlines, among others.
- **Gaps down:** Try exiting a stock if it gaps down.

Selling into strength

- Take most profits when a stock rises 20–25% from its buy point.
- **Exception:** When a stock rallies 20% or more in the first three weeks. This shows extra potential and should be held for at least eight weeks.

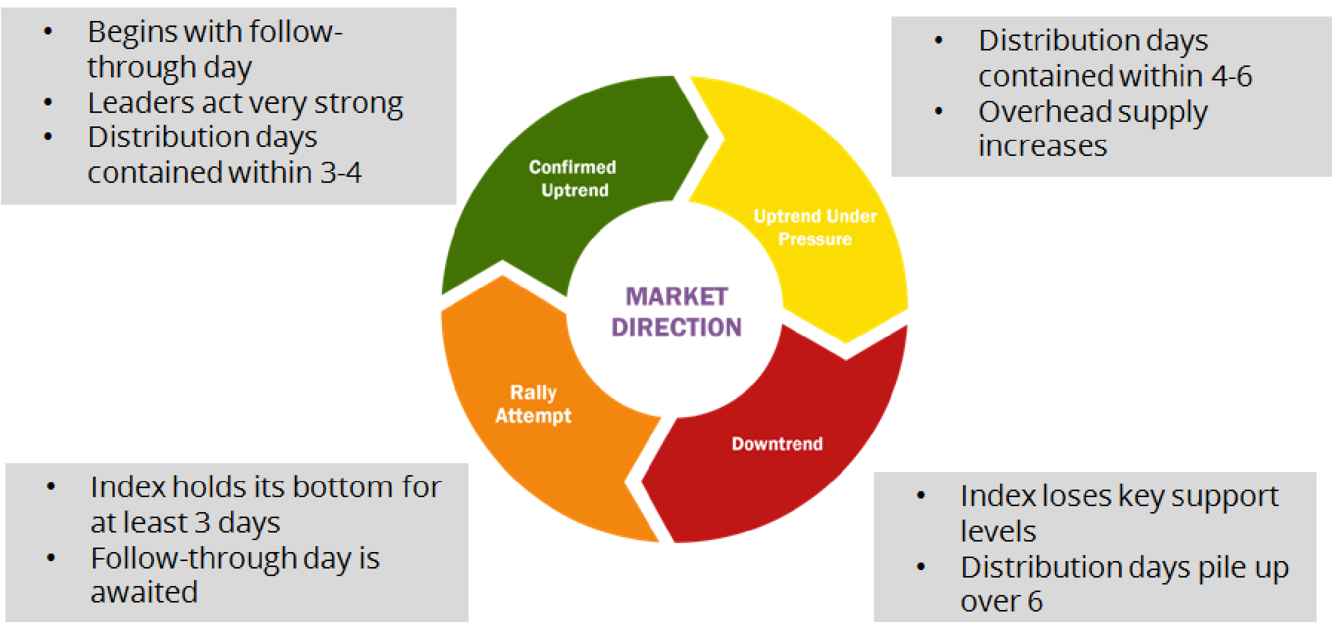
3. General Market Distribution

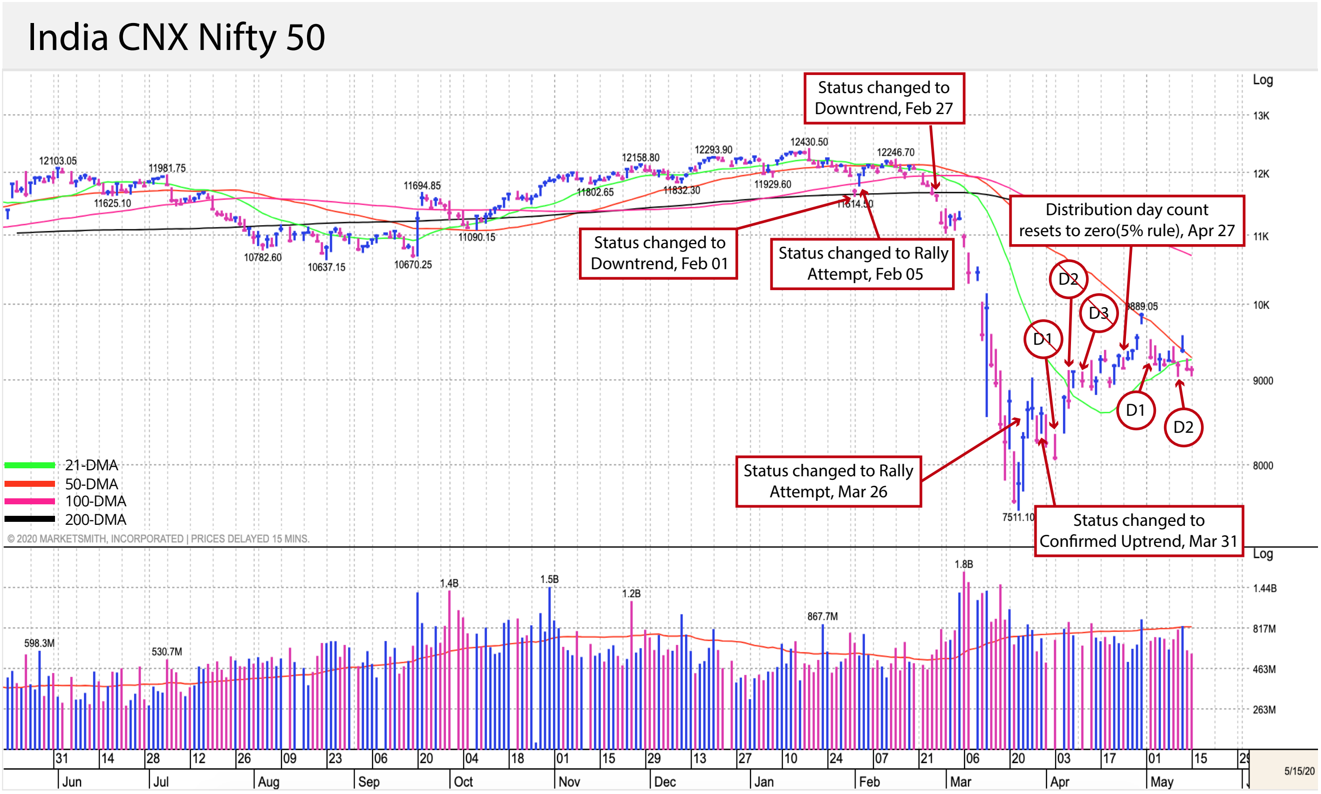
What to watch for:

- Distribution day in key indexes
- General market direction is down
- Current position in market cycle

Distribution Day: If a major index (Nifty50 in our case) falls 0.2% or more on higher than previous sessions, then it qualifies to be a distribution day. Accumulation of distribution days signals the weakness in the market.

A bull market tops out and turns down before a recession sets in. Hence, looking at economic indicators is a poor way to buy or sell stocks and is not recommended. Similarly for the bear market as well. **Stock markets are a leading economic indicator, not a coincident or lagging indicator.**





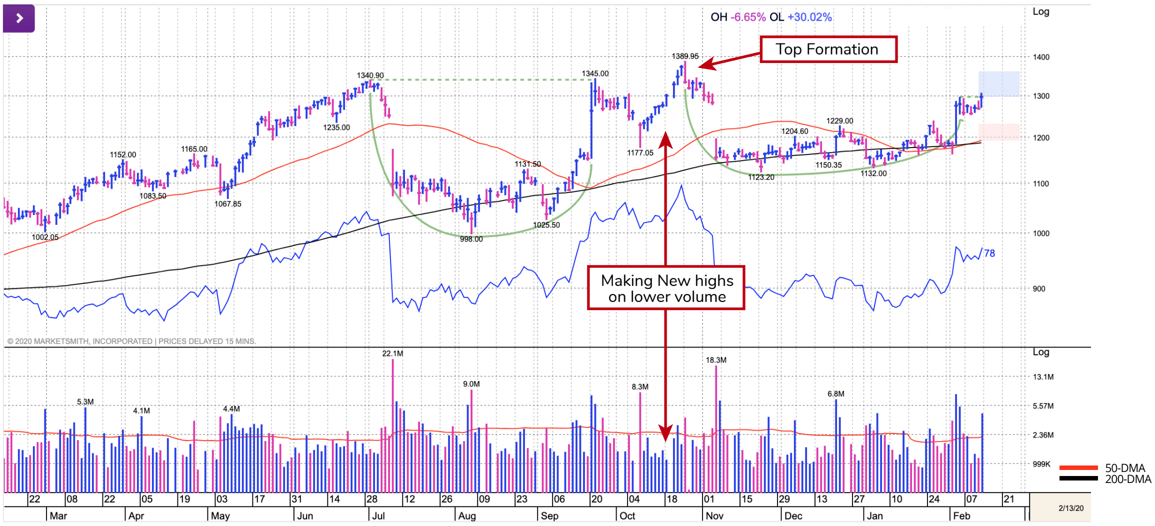
Confirmed Uptrend -> Uptrend Under Pressure: Market status should be downgraded to an "Uptrend Under Pressure" as the distribution day count rises to 3–5.
Uptrend Under Pressure -> Correction: If the distribution increases further to 6–8 or key market index breaches the key moving averages, the market status is changed to a "Downtrend".
Uptrend Under Pressure -> Confirmed Uptrend: Market status should be changed back to a Confirmed Uptrend if Nifty retakes its previous rally high intraday.
Downtrend -> Rally Attempt: Once the market is in a Downtrend, investors are advised to trim/exit their positions. However, it is important to find the market bottom. If the market is able to stay above its correction for three consecutive days, it is said to be attempting rally. Hence, the market status will be changed to a "Rally Attempt".
Rally Attempt -> Correction: Market status is reverted if the major index (Nifty50), breaches its previous correction low.
Rally Attempt -> Confirmed Uptrend: For further conviction, we wait for the market to have a follow-through-day (FTD). After an FTD, market status is changed to a "Confirmed Uptrend".
Follow-through day: If the market (Nifty50, in our case) rallies 1.2% or more on higher than previous session volume, then it qualifies to be a follow-through day.

Key technical indicators to identify weakness in a stock:

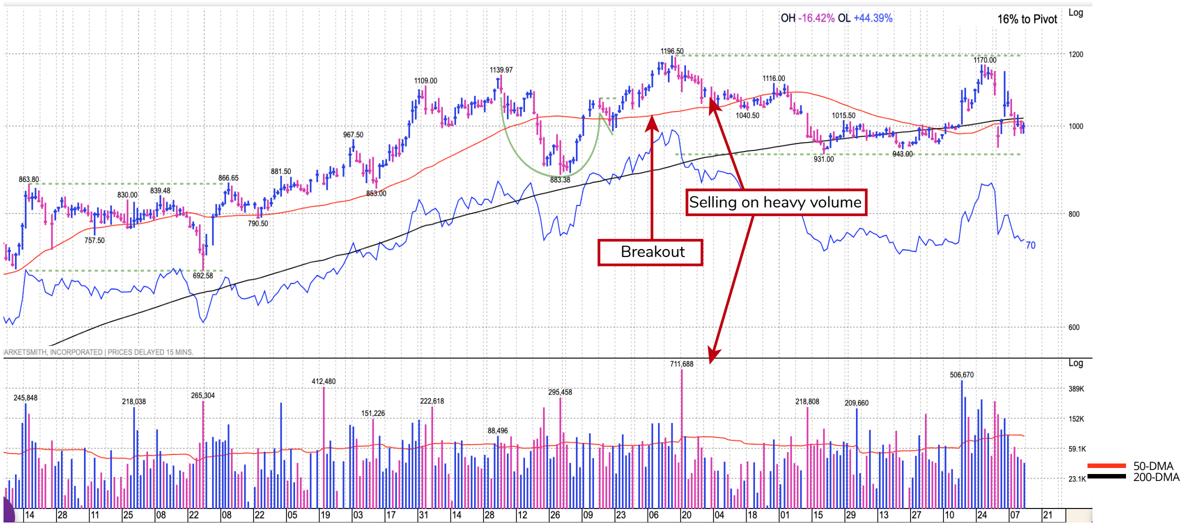
- **New highs on low volume:** Some stocks will make new highs on lower volume. As the stock goes up volume dries up. This means, institutional investors have lost their appetite for the stock.
  Example: (Titan)
- **Closing at or near day's low:** Some stocks end near their day's low for several days, this indicates the stock has made a top.
  Decline from peak: You may occasionally want to sell if a stock declines 12–15% from its peak.

Examples: Cummins, Whirlpool of India, Godrej Industries, and ITC

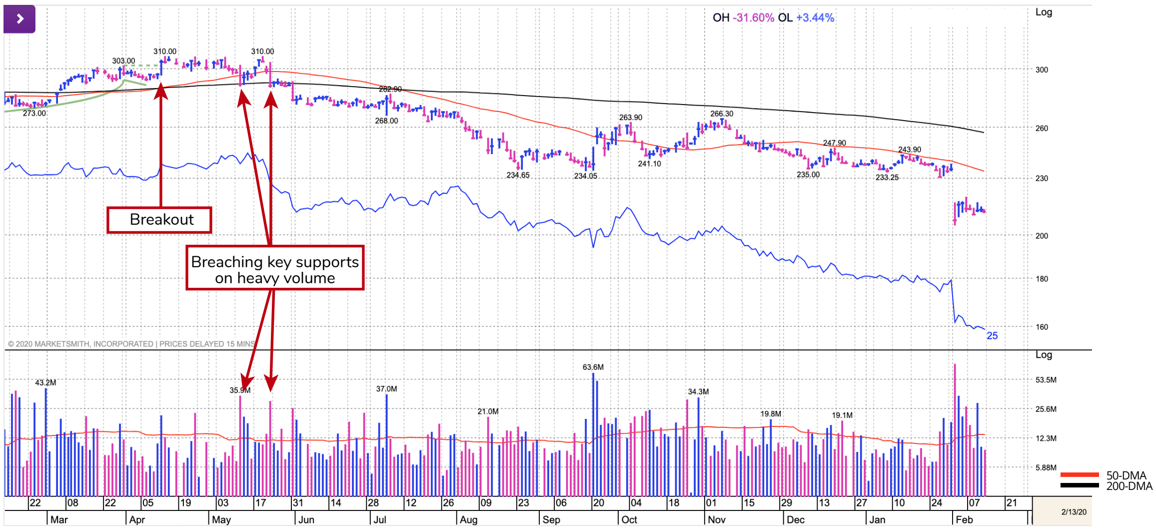
TITAN



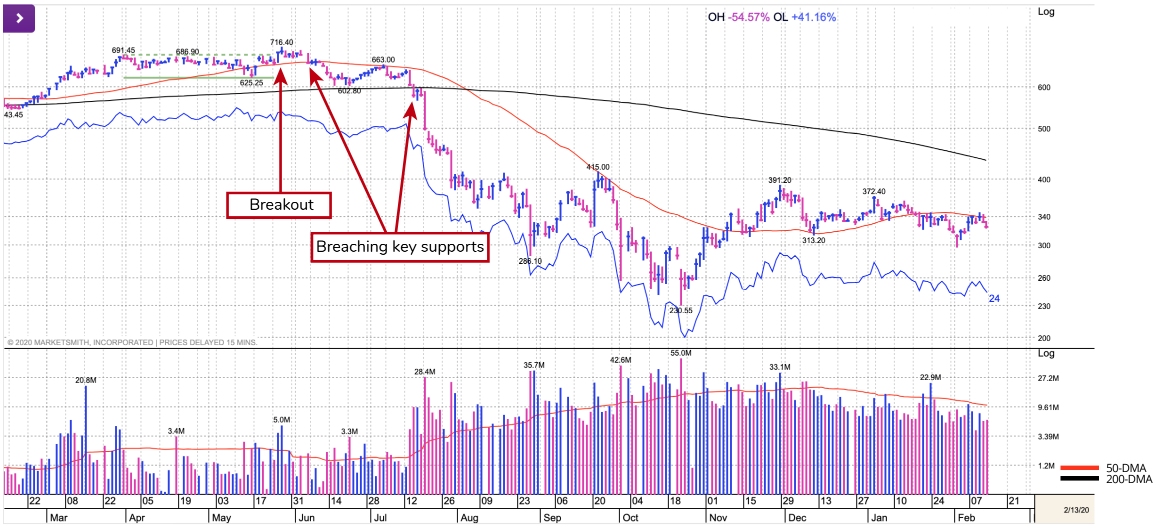
VINATI ORGANICS



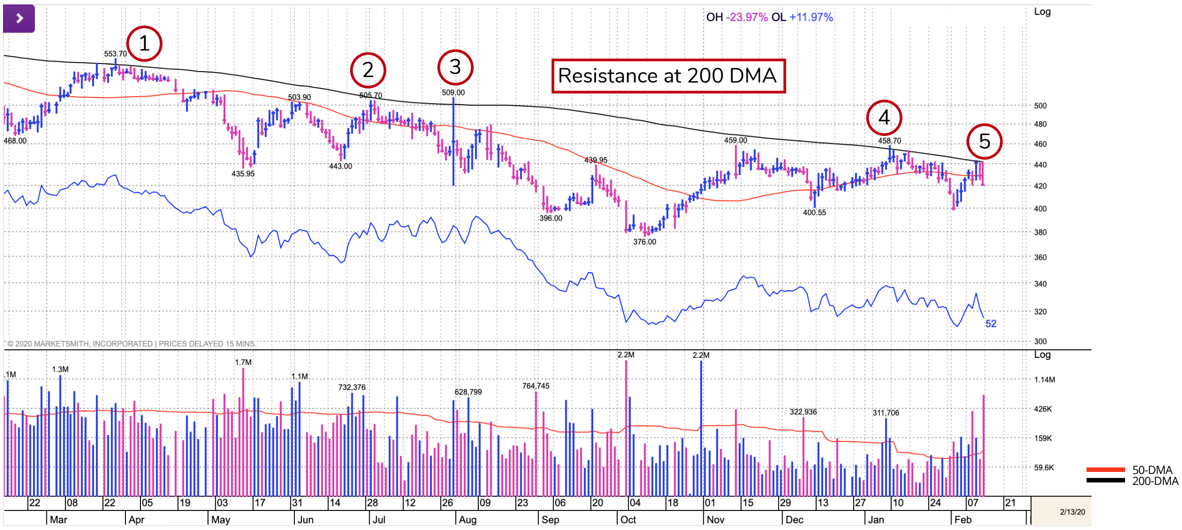
ITC



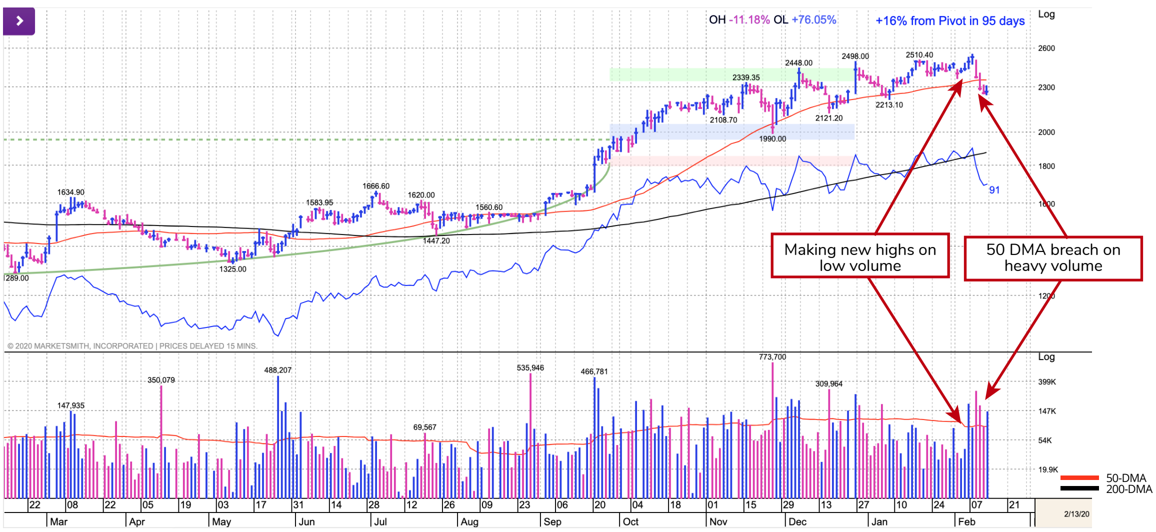
RBL BANK



GODREJ INDUSTRIES



WHIRLPOOL OF INDIA



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Analyst ownership of the stock	No

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