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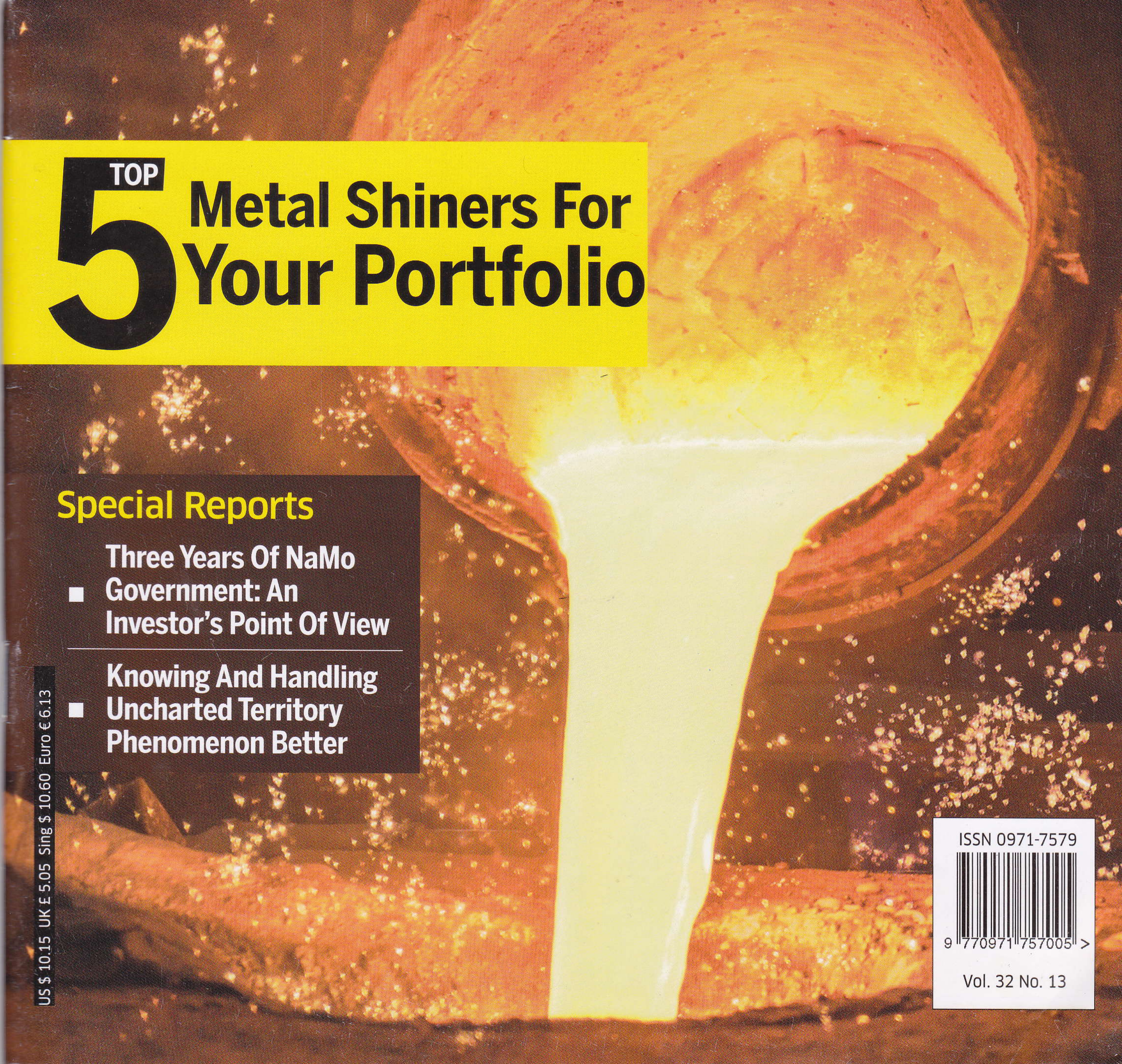

TOP 5 Metal Shiners For Your Portfolio

Special Reports

- Three Years Of NaMo Government: An Investor's Point Of View
- Knowing And Handling Uncharted Territory Phenomenon Better

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(50*300)= ₹1,80,000, which is almost 20 per cent higher than Trader A. So this is how pyramiding helps.

4 **Let your profit run but follow a trailing stop loss:** When a security has confirmed the breakout and it has pierced all its resistance barriers, one of the most difficult decision market participants have to take is when to take profits home and when to cut losses short. Some participants will prematurely sell as a stock rises, while others will hang on to their shares far too long as prices plummet. How can you prevent from making the latter error? The trailing stop-loss is one of the approaches that can help market participant to protect their profit. The trailing stop-loss order is actually a combination of two concepts. There is trailing component and the stop loss order component. The trailing stop loss order does not put a cap on profits. Shares can continue to rise and market participant will stay invested as long as prices do not dip by your predetermined percentage. In a trailing stop loss, the stop loss is no longer fixed, but rather trails the price by a certain amount or by a certain percentage that an investor or trader specifies. In doing so, one of the key advantages of trailing stop-loss order is that it allows you to lock in profits rather than hold on to a stock for too long to only see your profits diminishing. Here's an example of trailing stop loss order: You purchase the stock of XYZ Ltd at ₹200 per share. You set the trailing stop-loss order at 5 per cent. Thus, if the price falls to ₹ 190, your stock will automatically be sold. But as the stock price of ABC Ltd rises, so does your trailing stop loss. If the stock price surges to ₹ 250, your trailing stop-loss order now stands at ₹ 238.50. If it continues to surge higher and reaches the level of ₹300, then your trailing stop loss stands at ₹285. The trailing stop loss limit can vary according to trader or investor. It can be 5-10-15 per cent as per the strategy of the market participant.

Final Word:

As the security breaks out into an uncharted territory, it generally ends up being a riddle for the market participant as to what should be his move, particularly for a technical trader as there is no reference point on the price action. However, the abovementioned key points may help a market participant to take decisions as the price enters into an uncharted territory. The above points will help a market participant to maximize profit, locate potential resistance and identify when the bullish trend is likely to reverse.

Milan Vaishnav, CMT,
Technical Analyst at Gemstone Equity Research & Advisory Services

Take on what should Investors do when markets or their investment are in an uncharted territory?

Of late, the Indian equity markets have had a phenomenal run up over the past three-and-half years. From the lows of around 5135 in August 2013, the benchmark Nifty50 has risen nearly 4400 points or 85% as it marked its high of 9532. On a year-to-date basis, the benchmark Nifty50 has gained nearly 17.50%.

During times like these, when large proportion of stocks are recording their fresh 52-week highs, Investors often face a typical dilemma. They are unable to decide to what extent they should let their profits run on their Investments. Human biases dominate their thinking during such buoyant periods when they often struggle to decide whether to book profits and exit or to let their profits run.

When there is a constant clash between greed and fear in the Investors mind, the investor either ends up selling too early or selling too late when bulk of the profits have been lost.

There is one point that Investors should never forget. Buying at the right time is important, but selling at the right time is equally or even more important.

1 **Protection of Profits:** On method that Investors can adopt to protect their profit is using "trailing stop Loss". These are also known as "progressive stops". This is used to mainly avoid the potential loss of profits. "Trailing" or "progressive" stops are an absolute necessity because if the stock continues trading in an uptrend overtime, the price gets further higher and higher from the point of entry and at one point of time, it becomes necessary to protect the profits and prevent them from getting washed away due to sudden reversal or a large corrective decline.
The most common method to plot trailing stop losses is to use trend line joining all minor bottoms. Usually, whenever a minor bottom is formed and the stock moves up again, that minor bottom or reversal point becomes a "trailing" or a "progressive" stop.
This is the most widely used method of locking profits used by the investors whenever the markets are in an uncharted territory. The golden rule is that 75-80% of the profits should be protected. In other words, in the event of a corrective decline, if the Investor is left with 75-80% of the profits as compared to the peak price of the equity, he should book them and exit. It is perfectly acceptable.

2 **Effectively rotate sectors:** In an event when the investor has exited from his investments and realized profits, the right thing that he must to is to effectively rotate sectors. There will always be good stocks from good sectors which would have either lagged or underperformed in the most immediate rally. The key would be to identify such quality stocks and initiate investments again. Usually, these will be the stocks that will take the markets higher when it resumes its upmove after corrective declines, if any.
There are tools like RRG – Relative Rotation Graphs – that can be used to identify sectoral rotation. They show which sectors are leading, which are losing momentum, and which sectors are improving and are likely to lead the next phase of the rally.