Stocks: Technical Analysis

Sample Investing Plan
Important Information

While this course discusses technical analysis, other approaches, including fundamental analysis, may assert very different views.

Past performance of a security does not guarantee future results or success.

Examples using real stock symbols are provided for illustrative and educational use only, and are not a recommendation or solicitation to buy, sell, or hold any specific security.

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Bull Flags Sample Investing Plan
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Objective
To learn how to trade short-term rallies in an intermediate-term uptrend using bull flag price patterns. Remember, an uptrend doesn’t guarantee the trend will continue, and the stock price may move in the opposite direction.

Watch List Criteria
One way to identify stocks with potential bull flag patterns is to use charts and a scanner to find stocks exhibiting upward momentum and liquidity.

- Upward momentum can be identified with an intermediate uptrend using a one-year daily chart where the stock’s price is creating higher highs and higher lows.
- Stocks that have a minimum average daily volume of 250,000 per day and trade at no less than $10 per share tend to have enough liquidity to reduce the risk of slippage.

Sample Entry Rules
When considering a position on a security using a bull flag pattern, support bounces and resistance breaks are common entry signals.

- A support bounce is a common entry signal that can be identified by a close above the high of the low day (CAHOLD). A support bounce entry can be used when the lowest low in the price pattern can easily be identified.
- A resistance break is another common entry signal that can be identified by the price closing above resistance drawn along the top of the pattern.

Money Management
Position sizing and defining your potential losses can help you manage risk.

- Risking no more than 0.5% – 1% of the total portfolio value on a trade helps reduce the impact of losses and helps avoid tying up a lot of money.
Sample Exit Rules
Planning potential exits before actually entering a trade can help mitigate emotions like fear and greed.

- Setting an initial stop order at 1% below the low of the lowest day within the pattern can help maintain a desirable risk-to-return ratio. Keep in mind that a stop order will not guarantee an execution at or near the activation price. Once activated, they compete with other incoming market orders.
- Technicians use the flag pole to create price targets. It’s used by measuring the flag pole and adding it to a breakout point to create a potential price target.

Routines
Daily, weekly, and quarterly routines can help traders consistently manage their trades.

Sample Daily Routines:
- Monitor open positions daily for potential exit signals.
- Monitor watch list daily for potential entry signals.
- Update trading journal as needed.

Sample Weekly Routine:
- Search for candidates every weekend when the markets are closed and emotions are low.

Sample Quarterly Routine:
- Review journal during a quarterly evaluation for optimization.