

Investools

from  **Ameritrade**
Holding Corp.

Stock Investing

SAMPLE INVESTING PLAN

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Stock Investing Plan

STOCK INVESTING

Objective

To invest in fundamentally strong, uptrending stocks over the intermediate term (three months to one year) or long term (one year or more).

Watch List Criteria

Identify favorable market trends, strong sectors, outperforming industries and subindustries, and then stocks with sound fundamentals and technicals.

1. Develop market posture using the Corporate Snapshot.

Major index (e.g., S&P 500®) trend is sideways or up:

- **Intermediate investors:** One-year daily chart
- **Long-term investors:** Five-year weekly chart

2. Identify outperforming industries and subindustries within strong sectors using the Big Chart™.

- Industry and subindustry are currently ranked green or yellow.

3. Find stocks with good fundamentals and technicals using the Corporate Snapshot and One-Click Stock-Investing Search.

FUNDAMENTALS

Growth Phase 1

- At least five green arrows
- No more than three red arrows

Growth Phase 2

- F/E score of 3.25 or higher
- Price Pattern of 2.5 or higher

TECHNICALS

- Average daily volume of 250,000 shares or higher
- **Intermediate-term investors:** Up or sideways intermediate-term trend on a one-year daily chart
- **Long-term investors:** Up or sideways long-term trend on a five-year weekly chart

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Entry Rules

Consider buying a watch list candidate after it displays an entry signal on the Corporate Snapshot.

Entry signal for an uptrending stock:

- Three Green Arrows
 - **Intermediate-term investors:** One-year daily chart
 - **Long-term investors:** Five-year weekly chart

Entry signal for a sideways-trending stock:

- Three Green Arrows
 - **Intermediate-term investors:** One-year daily chart
 - **Long-term investors:** Five-year weekly chart
- Broken resistance
- Volume surge of 120% average volume

Money Management Rules

Manage risk by position-sizing and defining your max loss.

Position Sizing:

- **Formula:** $\text{Portfolio risk} / \text{Trade risk} = \# \text{ of shares to buy}$
- **Portfolio risk:** No more than 1% of total growth portfolio value
- $\text{Trade risk} = \text{Entry price} - \text{Stop price}$
- Total investment should be no more than 10% of growth portfolio in a single trade

Exit Rules

Periodically adjust your stop order to handle your exits. If the stock falls below your stop, the stop will trigger and the trade will be closed automatically.

Initial stop order placement for an uptrending stock:

- **Intermediate-term investors:** 3% below the 30-day simple moving average
- **Long-term investors:** 3% below the 30-week simple moving average

Initial stop order placement for a sideways-trending stock:

- **Intermediate-term investors:** 3% below the lowest price in the last two weeks on one-year daily chart
- **Long-term investors:** 3% below the lowest price in the last two months on five-year weekly chart

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When to adjust your stop:

Intermediate-Term Investors:

- **Three-and-Three Rule:** At the end of the day on which the third red arrow appears, move stop up to 3% below that day's lowest price. If this price level is below your current stop, keep the stop at its current position—do not adjust stops downward.
- When new support is formed, move stop up to 3% below support level.

Long-Term Investors:

- **Three-and-Three Rule:** At the end of the week in which the third red arrow appears, move stop up to 3% below that week's lowest price. If this price level is below your current stop, keep the stop at its current position.
- When new support is formed, move stop up to 3% below support level.

Routines

Maintain your trades by following daily, weekly, and monthly routines.

Daily Routines

- **Monitor open positions:** Look for three red arrows and adjust stops according to the Three-and-Three Rule if necessary.
- **Monitor watch list:** Inspect your watch list for stocks that meet entry signals.
- **Continue learning:** Listen to our instructors discuss daily market action in our Morning HuddleSM and read the Market ForecastTM.

Weekly Routines

- **Update market posture:** Determine market trend by analyzing major indices.
- **Search for stocks:** Search for new watch list candidates using the top-down analysis method detailed in the Watch List Criteria.
- **Maintain watch list:** Remove stocks from your watch list that no longer meet the criteria.
- **Monitor open positions:** Look for new levels of support and adjust stops accordingly.

Monthly Routines

Review your trade journal at the end of the month. When reviewing your trades, ask yourself:

- Were stops placed and managed effectively?
- Does the position size need to be larger per trade? Smaller per trade?
- Was market posture leading to correct trades for the trend?

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