Here's the thing:

Most traders focus too much on their entries as that's the most hopeful stage of a trade.

But the fact is, your exit determines your profit and loss (P&L), not your entry.

You can have a good trading entry, but if you manage your trade poorly and exit at the worst possible time, you can still end up with a loss.

Here's an example:

You go long on a breakout and the trade goes in your favor immediately.

Shortly, you have open profits of 3R and your trading strategy tells you to exit your trade (because the market has reached a key Resistance).

But, you tell yourself: "This chart is looking so bullish, I should hold this trade longer for bigger profits".

So, you hold onto the trade.

Slowly, the market starts to reverse and wiped out a portion of your open profits.

Now you're feeling anxious but you tell yourself:

"Never mind, I'll exit the trade if the market goes up a little more".

Unfortunately, the market didn't go higher and retrace all the way and hit your stop loss. *Ouch.*

Furthermore, in the book *The Complete Turtle Trader*, Michael Covel recounts how the famed trader Richard Dennis drove this home to his students:

"Our research indicated that liquidations are vastly more important than initiations. If you initiate purely randomly, you do surprisingly well with a good liquidation criterion.

Dennis challenged the Turtles to randomly enter the market and then manage their trades after getting in. That was a real Zen moment for the Turtles. If they applied appropriate risk management, they could handle the worst that came down the pike once they were in any trade.

Profit or loss is determined at the trade exit, not entry. Too many traders fixate on finding The 'Great Set-Up', instead of all the steps that come before clicking buy."

Now, I hope you realized that instead of finding the perfect entry, you're better off learning how to exit your trades.

So, in this section you'll learn:

- Why your trading goals determine how you exit your trade
- How to exit your trades for consistent income
- How to exit your trades and grow your wealth

Ready? Then let's begin…

Why your trading goals determine how you exit your trade

This may surprise you but there are two main types of retail traders:

- Swing and day traders who trade for an income
- Position traders who trade to grow their wealth

You‘re probably thinking: “What’s the difference between the two?”

Swing and day traders trade for an income so they favor consistency over big profits.

Trading is usually their main source of income so they need the consistency to put food on the table.

On the other hand, position traders look to grow their wealth over time by capturing big moves in the market.

Trading isn’t their only source of income so they can afford to wait for big trends to occur.

Because of the different objectives of both traders, this requires taking profits and managing trades differently.

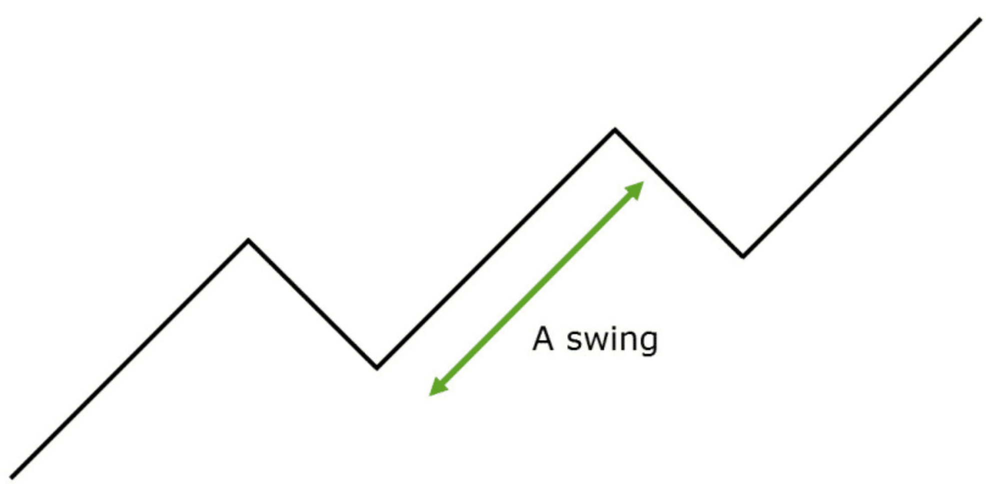
Let me explain…

How to exit your trades for consistent income

Now, if you are trading for an income, you will look to take profits at the nearest sign of trouble (before the market reverse).

In other words, you’re looking to capture a swing (“one move”) in the markets and not ride the trend.

An example of a swing:



Now, here are some ways you can exit your trades for a consistent income:

- Prior highs and lows

- Fibonacci Extension
- Daily Average True Range (ATR)

Let's look at them in detail…

Prior highs and lows

When I mention prior highs and lows, I mean swing highs/lows, Support and Resistance, or a level that sticks out of the chart.

You must pay attention to these areas because there is a likelihood from opposing pressure to prevent the price from going further (in your direction).

Let me explain:

Imagine you are long at Support and the market has moved in your favor.

Now think about this… where on the chart do you think the market likely to find sellers?

Chances are, you will find them at the prior highs or Resistance, right? So if you're in profit, it makes sense to exit your trade before the sellers come in and push price lower.

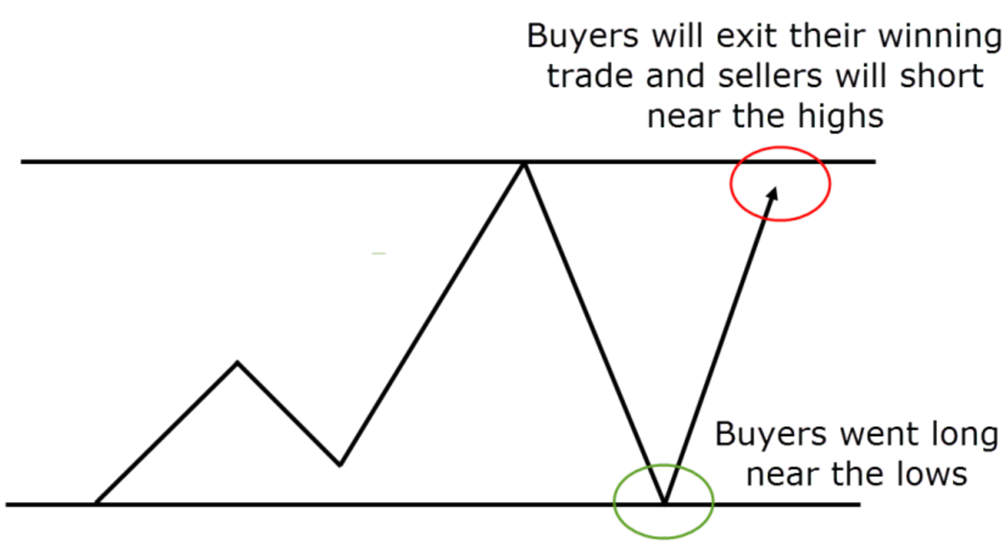
So what's the net effect?

At prior highs, you have buyers exiting their positions and sellers shorting the market.

This creates strong selling pressure from both groups of traders, which makes it likely for the market to reverse near the highs.

This technique to exit your trade is useful when the market is in a range, or in a weak trend.

Here's an example:



Note: You want to be conservative and exit your trades before the highs/lows are reached.

Because there are times the markets reverse just before these levels.

And you don't want to watch a winning trade become a loser because the market was 3 pips away from the high.

Now, you're probably wondering:

"But what if the market is trending nicely? I do not want to exit near the highs because it's likely to move higher and I may miss out further gains".

I agree and if that's the case, it makes sense to use this next technique…

Fibonacci Extension

When you hear traders talk about Fibonacci, there are a few tools for it.

You've got Fibonacci Retracements, Fibonacci Extensions, Fibonacci Fans, Fibonacci Arcs, and etc.

For this technique, we will focus only on Fibonacci Extensions (or Expansions as some call it).

You may be wondering: "What is Fibonacci Extension?"

It is an indicator that projects future price targets.

I won't go into the details of how Fibonacci numbers are calculated (you can easily google them), but the key numbers to pay attention are the 127 and 162 extensions.

Here's how to use it:

1. In a downtrend, draw the Fibonacci Extension tool from swing high to swing low
2. The projected targets are levels you can consider exiting your trade
3. Vice versa for an uptrend

An example:

Note: Some trading platform calls this indicator Fibonacci Expansion.

Now, let's move on…

Daily Average True Range (ATR)

This technique is useful for day traders.

Here's why…

As you know the ATR indicator calculates the average range (of a market) over X number of period.

For example:

If EURUSD has a daily ATR of 100 pips and today, it has moved 120 pips higher, what do you think is likely to happen?

Well, chances are it is likely to reverse from the highs since it has reached its daily ATR.

Think of the daily ATR like "fuel" for the day.

Once it's used up, the market is likely to stall or reverse from the highs.

So for day traders, the daily ATR are good targets to exit your positions.

Here's how to do it:

1. Find out what's the daily ATR
2. Add the ATR to the opening price to get a potential high for the day
3. Subtract the ATR from the opening price to get a potential low for the day
4. Use this as reference to exit your long or short positions

And if the daily ATR has coincided with Support or Resistance, it's even a strong reason to exit your trade if the market gets to it.

Now… bear in mind, when you set a target profit, you don't want to set it at the exact highs/lows because the markets may reverse before reaching these levels.

A better way to do it is to set your target profit before the levels itself as this increase the odds of you having a profit — and not watching it reverse all the way back to your entry price.

The reality of swing trading

Swing trading is a great way to generate a consistent income as you exit your trades before the markets reverse against you.

This approach is suitable for those who hold a full-time job and want to earn a "second" income from trading.

If this is for you, then here are some facts of swing trading…

You have better win rate

You can expect to win about half the time (this is not fixed as it depends on the proficiency of the trader) and make anywhere from 1 – 3R on your trades.

Statistically speaking, a higher win rate would result in a lower R.

You will miss big moves

Because you are always taking profits, you will not be able to ride trends in the market.

So don't beat yourself up when you miss a big move because that's not the role of a swing trader.

It requires more time commitment

Swing traders usually get out of their trades at the first sign of trouble.

Their objective is to capture a swing in the markets and not ride the entire move.

Thus, this requires more time commitment as you actively manage your trades.

For example, if you are trading the 1-hour timeframe, then you'll need to check your trades once every hour.

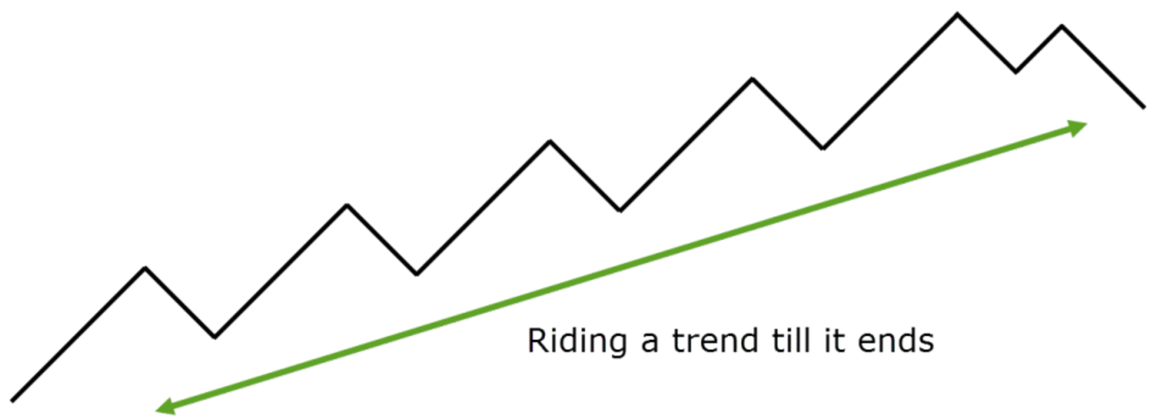
And if you are trading the 4-hour timeframe, then you'll need to check your trades once every 4 hours. You get my point.

How to exit your trades and grow your wealth

Now… if you're looking to grow your wealth through trading, then don't expect to generate a consistent income (compared to swing or day trading).

But, you will seek to achieve a certain percentage return each year by looking to capture big trends in the markets.

Here is what I mean:



Now, if you want to ride trends in the markets, you cannot have a pre-determined exit ahead of time.

This means you won't have a profit target but will look to trail your stop loss.

The reality of this approach is you will give back a lot of open profits and you will never exit at the absolute high or low.

If this is for you, then these are ways to exit your trades (and ride big trends):

- Moving average
- Structure
- Average true range (ATR)

Let me explain…

Moving average

The moving average (ma) is an indicator that smooths out past prices.

There are variations to it depending on whether you use the open, high, low, or close prices. Or, the different types of calculations involved like simple ma, weighted ma, linear ma, and etc.

Anyway, the key thing is you can use a moving average to trail your stop loss.

If you are long, you will trail your stop loss below the moving average. And if you are short, you will trail your stop loss above the moving average.

Now you're probably thinking: "So, which is the best moving average out there?"

Well, the truth is, there is no best moving average. It depends on the type of trends you want to capture.

Here is what I mean:

- If you want to ride short-term trend, you can consider using the 20-period ma
- If you want to ride medium-term trend, you can consider using the 100-period ma
- If you want to ride long-term trend, you can consider using the 200-period ma

Honestly, it will not make much difference if you choose the 21 over 20-period ma or the 205 over the 200-period ma.

So, let's not get anal with this.

But the thing to note is, if you use a higher value moving average, you will capture a longer-term trend, and your trades will be of longer duration.

Likewise, if you use a smaller value moving average, you will capture a shorter term trend, and your trades will be of shorter duration.

Now… the next thing to consider is your specific exit trigger. Here are some ways to do it:

- Wait for a moving average crossover (the faster ma cuts the slower ma)
- Wait for the candle to close beyond the moving average
- Set your stop loss a distance away from the moving average (using the ATR indicator)

Clearly, there is no right or wrong to these questions.

Instead, you need to find an approach that suits you best (depending on your goals, time commitment, and personality).

Let’s move on…

Structure

In an uptrend, you are likely to see higher highs and lows.

So, if you want to ride the trend, a logical place to put your stop loss is below the previous low (since the market has a tendency to make higher lows).

Here is an example:

A variation of this approach is trailing your stop loss using trendline (which is similar to Support and Resistance but drawn diagonally).

Now, you don’t want to place your stop loss just below the previous low because you could get stopped out easily, only to watch the markets reverse back to your intended direction.

So, here are some exit triggers to consider:

- Wait for the candle to close below the structure low
- Set your stop loss a distance away from structure (using the ATR indicator)

Again, there is no right or wrong to these questions.

Instead, you need to find an approach that suits you best.

Average true range (ATR)

Recall, the ATR indicator measures the volatility of the markets by averaging the range of the earlier candles.

Using this tool, you can trail your stop loss based on the volatility of the markets, so you don’t get stopped out by “noise”.

Also, this approach is popular among systematic traders as it can be quantified easily.

Here's how to do it if you in a long position:

- Define the ATR multiple you are using (whether it's 2ATR, 3ATR, etc.)
- Minus the ATR value from the swing high and that is your trailing stop loss
- Continue adjusting your stop loss as the market makes a new high

An example:

Likewise, you must consider your exit trigger, whether to exit immediately when the price hits your trailing stop loss, wait for the candle to close, and etc.

Moving on…

The reality of riding trends

Riding trends is a powerful way to grow your wealth with minimal "work" involved.

Because there's not much to do besides trailing your stop loss as the market moves in your favor.

However, don't let this simplicity fool you because this is the reality that comes with it…

You have low win rate

You have a low win rate if you want to ride trends in the market.

That's because you need a large enough stop loss to give your trade the breathing room it needs. And often, you can expect the market to stop you out for a loss.

But, there will be moments where you capture massive trends and this more than compensate for the little losses incurred along the way.

So, you should expect many losses of 1R or less, and a few large wins that could be 5R, 10R or more.

After all, trading isn't about how often you win or lose. But, how much you win when you are right, and how much you lose when you are wrong.

You never exit at the highs or lows

It's impossible to predict how high or low the markets can go.

So if you want to ride big trends, the only way is to trail your stop loss — and exit your trade only after the market has reversed against you.

If you try to exit your trade at a pre-determined level, it limits your profit potential (which makes it impossible to ride a trend).

You will give back large open profits

Because you exit your trade after the market has reversed against you, you have to accept that you will give back open profits.

In extreme condition, it's possible to give back 50% or more of your open profits (especially when the market goes parabolic).

You need time for your trades to play out

If you want to ride trends in the markets, it's more favorable to trade the higher timeframes (like Daily) as the trend is more sustained.

And since you are trading the higher timeframes, you need time for your trades to play out, which could take weeks or even months.

Thus, you must be patient. For this reason, riding trends is not an income generating approach but a wealth building approach.

You need to trade many markets

I'm sure you know that markets are in a range more often than not.

Thus, you need to trade more markets to increase your odds of capturing a trend. Ideally, you want to be exposed to different sectors like Currencies, Agriculture, Equities, Bonds, Metals, Energy, and etc.

Now if you think about it, this approach is a little "slow" for trading and a little "fast" for investing.

And in my opinion, this is the sweet spot between trading and investing.

The exact term of this type of trading is called "Trend Following".

And if you want to learn more, I recommend reading these books… *Following the Trend* by Andreas Clenow, *Trend Following* by Michael Covel, and *The Complete Turtle Traders* by Michael Covel.

Summary

- Swing/Day trading suits you if you're looking to generate a consistent income

- Trend Following suits you if you’re looking to grow your wealth over time
- You can capture swings in the markets by exiting your trades at Prior highs/lows, Fibonacci Extensions, or Daily Average True Range (ATR)
- You can ride trends in the markets by trailing your stop loss. Some techniques include using: Moving Average, Structure, or the ATR