Reality Check: The Biggest Mistake Investors Make and the Best Way to Avoid It

As the year-end fast approaches, it's a great time for us to take stock of our investment goals and results for 2023.

What went right? What went wrong? And how can I do better? These are questions I constantly ask myself, and you should too.

When it comes to making money – finding the best stocks to buy and the best time to buy – our *TradeSmith* tools have no peers. And we have added even more tools and screens this year for you to take advantage of.

But when it comes to disciplined investing, making money is only half the story. And it's not even the most important half.

Managing risk, avoiding losses – and keeping the profits you've earned – that's the rest of the story. And in my book, it is the most important part by far.

After all, stocks go up most of the time. So, you could just buy a low-cost index tracking ETF to make money. Of course, you can't expect your results in that case to be any better than the index return.

But when it comes to individual stocks, each one is different. And they don't *ALL* go up most of the time.

That's why you've got to be disciplined when investing in stocks. In terms of how and when you buy them, and even more important, when to sell.

My Favorite *TradeSmith* Reality-Check Tools

Sometimes emotions can get the better of us and trap us in losing stock positions. It happened to me a few times this year, and it happens to us all. We get emotionally attached to a stock, even when impartial indicators tell us to "sell."

This is precisely why I love our *TradeSmith Finance* platform. It helps to remove emotions from the equation. And it lets you make sure my more objective buy – and especially sell – decisions are based on cold, hard data.

Right at the top of my list: Our *TradeSmith* stop-loss indicators.

If you don't use an *objective* method to select your stop losses, you could cost yourself money.

So, today, we're going to discuss two of the proprietary stop losses you can use on *TradeSmith Finance*:

- The Volatility Quotient (VQ) trailing stop
- And the Health Indicator trailing stop

I'll show you how each one works – and how to apply them – to help make you a more disciplined investor. (The VQ Indicator is available with all levels of *TradeStops*, and the Health Indicator is available with *TradeStops* Plus and above. Both are included in *Trade360*, *TradeSmith Essentials*, and *TradeSmith* Platinum.)

Volatility and Health Stops

I first want to point out that both our volatility-based stops, which I'll refer to as VQ stops, and our Health-based stops are "dynamic."

That means they change over time as new information is processed *each day* by our algorithms.

The first one – the VQ stop – incorporates the historical volatility of a stock from the last three years, with an emphasis on the most recent year.

Our A.I.-powered algorithms crunch all the data and tell you exactly where to *set* your stop for any asset based on its price action.

This works great for stocks expanding from tight trading ranges. As the range expands, the VQ increases, automatically increasing the stop level along with it.

Once the stock settles and the price movement contracts, the VQ follows suit, and the stop loss trails closer to a stock's current price.

The second stop relies on our Health Indicator, which uses two years of data.

In the chart below for **Amazon.com (AMZN)** you can see the Health Indicator trailing stop (the red line) is currently just above $108. And as you can see, it's been rising as the AMZN stock price rises ever since it triggered an Entry Signal in August.

If you purchased shares of AMZN when the Entry Signal triggered at $133.98 in August, congratulations are in order. AMZN shares are now above $152. Now it's important to exercise that discipline and stick to your stop.

You may be wondering: How is the VQ Stop different from the Health Indicator stop?

In many cases, there isn't a lot of difference between the price levels for the two stops. For example, the current VQ stop on AMZN is $108.75, the same as the Health stop.

But that isn't always the case – sometimes there is a much bigger difference. And that's a good thing because it gives you some flexibility on how tight or loose you want to be with your stops. Here's the difference between the two stops.

- The Health Indicator will not widen or lower its trailing stop loss should the VQ increase over time.

- The VQ Trailing Stop, on the other hand, will widen or lower its trailing stop loss price, should the VQ increase over time.

Mike Burnick's Bottom Line: Our Health Indicator is the more comprehensive and conservative of our indicators. For my money, it's the best overall stop to use. It not only warns you when it may be time to step aside, it will also alert you when a position has triggered a fresh Entry

Signal to potentially re-enter the trade. Our *Trade360* bundle is an easy way to access both indicators.

Ultimately, the stop you use will depend on your own goals and personal investment style. But – *always, always, always* have a stop in place for every position you have – and stick to it.

Good investing,

Mike Burnick
Senior Analyst, *TradeSmith*