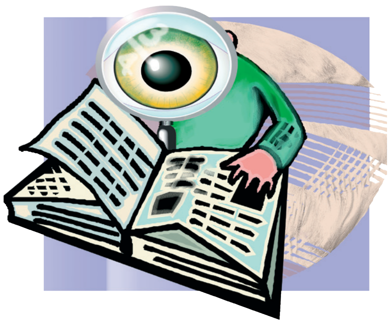
William O'Neil's CAN SLIM Approach to Selecting Growth Stocks Using Fundamental and Technical Data

By John Bajkowski

Article Highlights

- The CAN SLIM approach is based on a study of the biggest stock market winners.
- The approach seeks stocks with similar characteristics to past winners, including quarterly and annual earnings growth and strong relative price performance.
- A stock should be sold following two quarters of material slowdown in earnings growth or if it falls 7% or 8% below its purchase price.



The CAN SLIM approach is a popular investment strategy that uses fundamental company and industry factors to identify attractive stocks and employs technical price and volume analysis to help determine when to buy and sell.

The CAN SLIM approach is presented by William J. O'Neil, founder of Investor's Business Daily, in his book titled "How to Make Money in Stocks: A Winning System in Good Times or Bad" (McGraw-Hill), now in its fourth edition.

The second edition of "How to Make Money in Stocks" (1994) presented a stock selection approach developed by studying 500 of the biggest stock market winners from 1953 to 1993. The CAN SLIM approach in the book was based upon the characteristics that these winning stocks possessed prior to their big price run-ups and was the basis for the original O'Neil CAN SLIM screen that is in *Stock Investor Pro*, AAII's fundamental stock screening and research database, and in the Stock Screens section of AAII.com.

O'Neil extended his analysis of past market winners to 600 companies that performed strongly from 1953 to 2001 and revised a number of CAN SLIM criteria in the third edition of "How to Make Money in Stocks," published 2002. Stock screens derived from this third edition of the book can also be found in *Stock Investor Pro* and on AAII.com.

In the fourth edition of "How to Make Money in Stocks" (2011), O'Neil once again extended his analysis of past market winners. This time the analysis was extended to 1,000 of the top-performing stocks from 1880 through 2009. O'Neil also provided a full update of the CAN SLIM approach. This fourth edition served as the primary source for this article on his approach.

CAN SLIM Overview

William O'Neil is a strong believer in the sustained long-term growth of the American economy due to the freedoms and opportunities available, which he says have made the U.S. a "prime success model" worldwide and a leader in high-growth, innovative entrepreneurial companies. The ultimate goal of investing in stocks, he believes, is to participate in that long-term growth.

He recommends that investors arm themselves with the knowledge and information to make their own investment decisions with confidence. They should learn to invest using sound principles and proven rules and methods. People who dabble in the market are doomed to get mediocre results if they don't equip themselves properly. O'Neil feels that you can never be too young or too old to start investing wisely.

His first step is to examine the winners and leaders of the past to determine the characteristics that they shared before they ascended into greatness. These are the very characteristics investors should seek out today to find tomorrow's winning stocks.

The key factors O'Neil identified are:

- Quarterly earnings,
- Annual earnings history,
- Amount of trading volume,
- Degree of relative strength,

- Number of outstanding common shares,
- Significant new products or services, and
- Ties to strong industry group moves caused by industry changes.

The approach he ultimately devised is known by the acronym CAN SLIM, which is designed to help investors remember the seven key factors of these successful stocks.

The CAN SLIM approach seeks companies with a proven record of quarterly and annual earnings and sales growth showing strong relative price strength and support from leading institutions. O'Neil does not mind paying rich premiums for stocks with good

The William O'Neil CAN SLIM Approach in Brief

Philosophy and Style

Investment in companies whose stock prices are poised to rise due to favorable fundamental factors within the firm and industry, such as increased earnings due to new products and services, as well as favorable technical factors regarding price trends and the supply and demand for the stock.

Universe of Stocks

No restrictions—the entire universe of stocks. However, stocks of smaller firms are favored, since most innovations and new products come from smaller and medium-sized companies.

Criteria for Initial Consideration

- Current quarterly earnings per share that are 18% to 20% above earnings per share for the same quarter one year prior.
- Quarterly earnings per share growth that is accelerating. Conversely, decelerating growth in quarterly earnings per share is a bad sign.
- Insist on sales growth of at least 25% quarter over quarter or an accelerating rate of quarterly sales growth over last three quarters.
- Meaningful growth in annual earnings per share over the last three to five years (25% to 50% annually).
- Look for annual earnings per share that increased in each of the last three years.
- Look for high return on equity (ROE). O'Neil looks for ROE of 17% or greater.
- Look for positive cash flow.
- Search for companies with important new products or services, new management offering innovation or materially improved industry conditions, and buy when share prices are reaching new highs on increased volume off of properly formed bases.
- Small or reasonable number of shares outstanding helps to create buying pressure; there should be volume increases when a stock begins to move up.
- Look for companies buying back their own shares on the open market provided net income is growing.
- The stock should show high price strength relative to other stocks.
- The stock should have institutional owners with good performance records.
- Buy from among the best two or three stocks in the industry. The best companies are not the largest, but rather those that lead innovation and tend to have the highest ROE, widest profit margins, strongest sales growth and most dynamic price action.

Secondary Characteristics

- To be safer, insist that both of the last two quarters of earnings per share show significant earnings gains.
- Omit one-time extraordinary gains.
- Check consensus estimates to make sure that company is on positive projected path. Also look for increases in analyst estimates and record of earnings surprises.
- Consistency and stability in annual earnings per share, with few deviations from the long-term average trend. Long-term stability and growth separates growth stocks from cyclical stocks.
- Check two or three other top stocks within the same industry to serve as confirmation of growth.
- Low amount of long-term debt to equity.
- A large percentage of stock held by top management.
- Look for entrepreneurial management rather than caretakers.
- Excessive stock splits may hurt performance, especially late in a bull market.
- Avoid stocks with big price drops, even if they look cheap.
- Avoid companies that are "over-owned" by institutions.
- Avoid companies with no institutional ownership and with low capitalization because of a lack of liquidity.

Stock Monitoring and When to Sell

Monitor stocks quarterly by examining the percentage price increase over the prior quarter, focusing on relative price performance among stocks. When selling, sell worst-performing stocks and let the better-performing stocks 'run.' What goes up, eventually goes down.

To limit losses, sell if a stock's price drops 7% to 8% below the purchase price. Take profits when a stock has a 20% gain, unless the outlook is particularly favorable for further growth, both for the stock itself and the overall stock market.

prospects. He feels that most strategies seeking stocks with low price-earnings ratios are flawed because they ignore the price trend determining the price-earnings ratio as well as the quality of the underlying earnings within the ratio. O'Neil believes that stocks generally sell for what they are worth and most stocks with low price-earnings ratios are probably priced correctly by the market. As he notes, you can't buy a Mercedes for the price of a Chevy. O'Neil also asserts that it is important to follow the market closely and try to lighten up your stock exposure when going into a bear market.

C = Current Quarterly Earnings

The CAN SLIM approach focuses on companies with proven records of earnings growth that are still in a stage of earnings acceleration. O'Neil's study of winning stocks revealed that these securities generally had strong quarterly earnings per share performance prior to their significant price run-ups.

He recommends looking for stocks with a minimum increase in quarterly earnings of 18% to 20% over the same quarterly period one year ago. Booming profit growth helps lead to booming stock prices. When examining quarterly earnings increases, it is important to compare a quarter to the equivalent quarter in the prior year—in other words, this year's second quarter compared to last year's second quarter. Many firms have seasonal patterns to their earnings, and comparing similar quarters helps to take this into account.

When examining a percentage change, it is important not only to check the figures for unusually small base numbers that may distort the percentage change figures, but also to check if any of the numbers in the calculation are negative. A change in sign, as in from a negative to a positive, requires special consideration and may result in misleading analysis. To be safe, you can insist that both of the last two quarters show significant earnings growth.

Before investing, you can look ahead to see if the company will have easy or hard quarterly comparisons in upcoming quarters. O'Neil notes that you should check analyst consensus estimates to make sure that the company has a positive projected path forward. Look for increases in estimates of earnings going forward. It is also a good sign if the company has had positive earnings surprises (reported earnings higher than the consensus estimate), as these surprises are often repeated in subsequent quarters.

Whenever you are working with earnings, there is the issue of how to deal with extraordinary, non-recurring events. These one-time events can distort the actual trend in earnings and make company performance look better or worse when comparing against a firm without special events. O'Neil recommends excluding these non-recurring items from the analysis.

Beyond looking for strong quarterly growth, he likes to see an increasing rate of growth. An increasing rate of growth in quarterly earnings per share is so important in the CAN SLIM system that O'Neil warns shareholders to consider selling holdings of companies that show a slowing rate of growth for two quarters in a row.

He also likes to see same-quarter growth in sales greater than 25% or at least accelerating growth in sales over the last three quarters. This helps confirm the quality of a firm's earnings and sustain the growth in earnings.

Investors can improve their batting average if the aftertax profit margin is at or near company high levels as well as among the best in the industry.

The CAN SLIM system is not purely mechanical; O'Neil also likes to find at least one other stock in the same industry group that shows strong quarterly earnings growth as confirmation that industry conditions are good.

A = Annual Earnings Increases

Winning stocks in O'Neil's study had a steady and significant record of annual earnings in addition to a strong record of current earnings. His primary screen for annual earnings increases requires that earnings per share show an increase in each of the last three years. Three years of year-after-year earnings increases will weed out 80% of poor prospects in a given industry group.

Annual earnings increases help ensure that the quality of the short-term growth is lasting and significant. The combination of strong quarterly and annual earnings per share growth helps to ensure that you are investing in a super stock.

Stable earnings growth also helps to separate cyclical firms from true growth firms. Cyclical firms can be profitable investments, but they are less dependable in terms of growth. You must also gain an understanding of the economic cycle and which stocks are currently leading the market. Growth companies typically lead stocks during the early stages of an economic cycle. As the market progresses, investors tend to rotate from growth industries to cyclical industries. Cyclical rallies are typically short-lived and falter if concerns over the economy emerge. In his analysis of winning stocks, he notes that three-quarters of the big winners were growth stocks, while just one-quarter were cyclical firms or turnaround situations.

O'Neil advocates a close study of the market leaders and warns investors that the leaders of one cycle may not be the leaders in the next cycle.

He recommends only considering companies that show a strong annual growth rate of at least 25% over the last three years. Between 1980 and 2000, the median growth rate of winning stocks was 36% at the early emerging stage.

Optimally, the consensus earnings estimate for the next year should be higher than the latest reported year. When working with consensus earnings estimates it is important to remember that only the larger and more active firms will have analysts tracking them and providing estimates.

O'Neil looks for companies with a high return on equity (ROE, net income divided by shareholder's equity). His studies showed that the greatest winning stocks achieved an ROE of at least 17%. O'Neil uses this measure to separate well-managed companies from poorly managed ones. He also looks for companies with positive cash flow.

N = Newer Companies, New Products, New Management, New Highs off of Properly Formed Bases

O'Neil feels that a stock needs a catalyst to start a strong price advance. In his study, he found that 95% of the winning stocks had some sort of fundamental spark to push the company ahead of the pack. This catalyst can be a new product or service, a new management team employed after a period of lackluster performance, or even a structural change in a company's industry—such as a new technology that is revolutionary and causes disruption. It takes something new to produce a startling advance. A new product or service can boost sales and profit, especially for a smaller firm. A change in management can bring new vigor and ideas as well as sweep clean the old and unprofitable segments. Changing industry conditions can vary from new technology that alters the marketplace, to changes in the level of competition that modifies the ability to raise prices.

Reaching new highs in stocks prices after a period of consolidation is also very important. O'Neil says that stocks that seem too high-priced and risky often go even higher, while stocks that seem cheap often go even lower. Stocks that are making the new high list while accompanied by a big increase in volume might be prospects worth checking.

S = Supply and Demand

Any size stock can be purchased using the CAN SLIM approach, but supply and demand determines stock prices. High new demand is needed to push up the stock significantly. The larger the number of shares outstanding, the greater the demand needs to be. O'Neil favors the stocks of smaller firms not only for their growth prospects, but also because of the smaller number of shares outstanding. For these firms, a "reasonable" amount of buying can quickly push up the stock price. On the other hand, he warns that the very same characteristics make these stocks less liquid and more volatile, which are extra risks that investors must consider.

Larger companies are generally more sluggish but offer greater liquidity, less downside volatility and often better quality. Look for management that has an entrepreneurial spirit, rather than caretakers. Managers willing to take risks move more quickly and keep up with the times.

Note that market focus will shift from small firms to large firms over time.

O'Neil suggests investors examine the "float"—the number of common shares left for possible purchase after subtracting the shares that are closely held by management. Needless to say, stocks with a large percentage of stock held by top management are favorable.

Companies buying back their stock on the open market are preferred. Not only does this reduce the number of shares outstanding (a plus, since it increases demand and reduces supply), but more importantly it implies that management most likely expects improved sales and earnings. Share repurchases are best when net income is growing.

Excessive stock splits may hurt performance, especially if a large split (3-for-1 or 4-for-1) takes place late in the bull market.

Firms that have a low amount of long-term corporate debt relative to equity outstanding are preferable to firms with larger amounts of debt to equity. Firms that are more highly leveraged have a much greater risk of suffering from problems if interest rates spike. Debt-to-equity reduction over the last two to three years is a good sign.

L = Leader or Laggard

O'Neil notes that people often buy stocks of old names that make them feel good or comfortable without fully researching the company and its prospects. These firms may or may not be leading companies or have attractive price/volume action.

O'Neil is not a patient value investor looking for out-of-favor companies and willing to wait for the market to come around to his viewpoint. Rather, he prefers to identify rapidly growing companies that are market leaders in rapidly expanding industries. O'Neil advocates buying from among the best two or three stocks in a group. He feels that you will be compensated for any premium you pay for these leaders with significantly higher rates of return.

He notes that market leaders may or may not be the largest or most recognized names. The leaders have the best quarterly and annual earnings and sales growth, the highest return on equity, the widest profit margins and the best price and volume action. They likely have a unique and superior product or service that is helping the firm build market share and command higher prices.

He suggests using relative strength to identify market leaders. Relative strength compares the performance of a stock to the market as a whole. Companies are ranked by their price performance for a given period of time and their percentage ranking among all stocks is calculated to show the relative position against other stocks. Investor's Business Daily presents the percentage ranking of stocks; O'Neil recommends avoiding any stock with relative strength rank below 70% and only seeking out stocks with a percentage rank of 80% or better—stocks that have performed better than 80% of all stocks. These firms should also have sound base patterns (areas of price correction and consolidation). From 1950 to 2008 the average relative strength rank of the best-performing stocks was 87% before their big move up in price. O'Neil recommends avoiding laggards and sympathy plays.

He also warns against buying stocks on the way down. Success requires that you follow minimum standards. Look for and confirm that your purchases are market leaders.

I = Institutional Sponsorship

It takes big demand to push up stock prices, and the biggest source of demand comes from institutional investors such as mutual funds, pensions, insurance companies, banks, hedge funds and even charitable endowments. O'Neil feels that a stock needs a few institutional sponsors for it to show above-market performance. Twenty institutional owners is suggested as a reasonable minimum number. This number refers to actual

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Table 1. The William O'Neil Approach: CAN SLIM

Factors	Interpretation
C = Current Quarterly Earnings and Sales: The Higher, the Better	
Should show a major percentage increase (18% or 20% minimum) in the current quarterly earnings per share.	High quarterly growth signals strong recent performance that company is still in uptrend. Watch out for calculations based upon nearly nonexistent earnings, such as a penny or two.
Look at the current quarter's earnings per share versus the same quarter the year before.	Seasonal patterns for most companies make it important to compare quarters in the same part of the year.
Look at earnings per share, not total net income.	EPS takes dilution from additional shares into account.
Omit one-time extraordinary gains (losses).	Use earnings from continuing operations, avoid trap of nonrecurring profits.
Look for accelerating quarterly earnings growth.	A slowing rate of quarter-over-quarter growth may signal a slowing trend for a company.
Look for quarterly sales growth of 25% or at least an acceleration in rate of quarterly sales growth over last three quarters.	Sustainable EPS growth supported by strong sales growth.
Check consensus estimates to make sure that company is on positive projected path.	Look for increases in analyst estimates and look at past earnings surprise percentages.
Find at least one other stock in the same industry showing strong quarterly earnings growth.	Only one strong stock in a group may indicate weak opportunity.
Helpful if aftertax profit margins are at or near new high and among best stocks in industry.	Strong profit margins are a sign of sustainable profits and industry competitiveness.
A = Annual Earnings Increases: Look for Significant Growth	
The annual compounded growth rate for EPS should be at least 25%.	Strong steady growth is most desirable.
Significant growth in EPS for each of the last three years.	Past winners had strong earnings. While you may pay more for top companies, they will show strongest price appreciation.
The consensus earnings estimate for the next year should be higher than the current year.	Continued strength expected going forward.
Return on equity of 17% or more.	Shows how effectively company uses its capital; sign of good management.
Earnings should be stable and consistent from year to year over the last three years.	The more stable the earnings from year to year, the better the chance for continued strong performance.
Look for positive cash flow.	Strong sign if cash flow exceeds earnings.
N = New Products, New Management, New Highs: Buying at the Right Time	
Look for companies with a major new product or service, new management or a positive change for the industry.	Companies with catalyst tend to show the best performance as the market jumps on the news and earnings show growth because of the change.
Look for stocks close to or making new highs in price after a period of consolidation.	Stocks making new highs often continue to increase in price, while those hitting new lows often continue to fall.
Strong volume on price move up.	Volume confirms long-term strength of price move up.
S = Supply and Demand: Shares Outstanding, Plus Big Volume Demand at Key Points	
When choosing between two stocks, the stock with the lower number of shares should perform better to the upside, but can come down just as fast.	Stocks with a small or reasonable number of shares outstanding will, other things being equal, usually outperform older large-capitalization stocks.
Any size stock can be purchased under the CAN SLIM system.	Larger companies have greater liquidity and less downside volatility but tend to be less nimble. Look for entrepreneurial management.
The market will shift its emphasis between small- and large cap stocks over time.	At times, market will favor one segment over the other.
Stocks with a large percentage of ownership by top management are generally good prospects.	A large percentage of insider ownership reduces the public float, reducing supply and aligning manager and shareholder interests.
Look for companies buying their own stock in the open market.	The purchase of stock reduces public float and decreases supply and raises earnings per share. Best for companies with growing net income.
Look for companies with a lower debt-to-equity ratio and companies reducing their debt-to-equity ratios over the last few years.	Lower debt gives company greater flexibility if it should get into trouble or if interest rates increase.

Factors	Interpretation
L = Leader or Laggard: Which Is Your Stock?	
Use relative price strength to separate the leaders from the laggards—a stock with a relative strength rank below 70% is lagging and should be avoided.	The market is the best judge of a company's potential relative to other stocks. Stocks outperforming the market tend to do so for some time until a fundamental shift occurs.
Buy from among the top two or three stocks in a strong industry group.	Buy companies showing strong growth and price appreciation. Stocks without price movement or with prices trending down may be "sleepy losers." Relative strength should help to indicate strong industries and strong stocks.
To upgrade your stock selection, look for companies with a relative strength rank of 80% or higher that are in a sound base pattern.	To be more restrictive, consider only the strongest performers after a period of price correction and consolidation.
Sell your worst-performing stocks first and keep your best-performing stocks a little longer.	Don't let your ego dictate your actions. Recognize your mistakes early and pump money into your best ideas.
Don't buy stocks with weaker-than-average performance during a market correction.	Corrections can reveal new market leaders for the next market leg.
Cut losses at 7% or 8% off initial purchase price.	Don't let your ego dictate your actions. You will pay a heavy price if you ignore the market supply and demand decisions.
I = Institutional Sponsorship: Follow the Leaders	
Look for a stock to have several institutional owners. 20 might be a reasonable minimum.	Big demand is required for big price moves, and institutional buying has the biggest impact. Examine the number of institutions owning the stock and the percentage of shares outstanding held by institutions.
Look at quality of owners—seek out stocks held by at least one or two savvy portfolio managers.	It is better to follow the buying habits of institutions with good track records and with a growth style.
Look for stocks with an increasing, not decreasing, number of sponsors.	Look for an increasing number of institutions or percentage of shares held by institutions.
Avoid stocks that are over-owned—excessive institutional ownership.	Once a stock is owned by a very large number of institutions, the risk is that a mass exodus can slam the price down on bad news or market downturn.
M = Market Direction: How You Can Learn to Determine It	
It is difficult to fight the trend, so try to determine if you are in a bull or bear market.	Lack of profit on the last four or five trades may signal a negative shift in the general market.
Follow and understand what the general market averages are doing every day.	Look, follow, interpret and understand the daily price and volume charts of three or four major, general indexes.
Try to go 25% into cash when the market peaks and begins a major reversal.	Do not wait to sell if real market weakness develops. Quick action is especially important if stocks are purchased on margin.
Follow market leaders for clues on strength of market.	Market action is determined by collective actions of all investors.
Look for divergence of key averages and indexes at major turns. Divergence points to weaker and narrow market movement.	Market may have topped when original quality bull market leaders falter and a group of lower-quality, low-priced stocks dominate the most active list on market up days.
Heavy volume without significant price progress may signal a top, but initial market decline may be on lower volume.	Heavy volume when market is at top indicates the first wave of sell-offs by market-savvy investors. As market starts to slide down, it may take some time for general market to believe bear market has started.
Watch sentiment indicators.	Sentiment indicators may help highlight extreme psychological reversal points.
The change in the discount rate is a valuable indicator to watch as a confirmation of market moves.	Increases in the discount rate often lead to economic and market slowdowns.

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institutional owners of the common stock, not institutional analysts tracking and providing earnings estimates on stocks. Without institutional ownership, a stock is more likely to be a "run-of-the-mill" performer, given all the potential investors that passed on the company.

Beyond looking for a minimum number of institutional owners, O'Neil suggests that investors study the recent record of the institutions. Analysis of the holdings of successful mutual funds represents a good resource for the individual investor because information on mutual funds is widely distributed. Websites such as Morningstar.com (www.morningstar.com) disclose the top mutual funds that own a given stock.

O'Neil also likes to see the number of institutional shareholders increasing for a given stock in the most recent quarters. Note any new stock positions taken by an institution in the last quarter. Recent purchases tend to be more relevant: They often lead to follow-up purchases as the institution builds up a position.

Of course, what goes up will eventually come down. A stock can become over-owned, which would be a risk if these institutional investors run for the exit at the same time.

M = Market Direction

The final aspect of the CAN SLIM system looks at the overall market direction. While it may not impact the selection of specific stocks, the trend of the overall market will have a tremendous impact on the performance of your portfolio. O'Neil tends to focus on technical measures when determining the overall direction of the marketplace.

He feels that investors should carefully study the daily price and volume charts of three or four major market indexes to understand the stage of the market and its general direction. O'Neil finds it difficult to fight the trend, so it is important to determine if you are in a bull or bear market. He describes a number of techniques that individual investors can master to read the market. It is better to gain an understanding yourself, rather than rely on the opinions of others.

The market is the ultimate discounting machine that takes all economic, political and worldwide events into account. The market is not controlled by Wall Street; its actions are determined by the collective actions of all investors. O'Neil warns against second-guessing the market and reminds investors that you need a 50% gain to recoup a 33% decline.

O'Neil recommends selling at least some positions and raising some cash when the overall environment weakens and your stock selections are not working out.

Stock Monitoring and When to Sell

O'Neil suggests that investors monitor stock holdings quarterly by computing the percentage change in price from the prior quarter, and then listing the holdings in order of their relative price performance. This places the attention on the relative performance of stock holdings rather than how much a stock has gained or lost from its original purchase price.

If a stock you hold has two quarters of material slowdown in its quarter-over-quarter earnings growth rate, it should be sold. Any stock can have a bad quarter.

He also suggests that when a stock is purchased, a "profit and loss plan" should be established—one that sets an absolute loss level on the downside, as well as a goal for the upside.

O'Neil recommends that investors sell if a stock drops 7% or 8% below the purchase price. This level is established to limit an investor's absolute loss, and the level therefore need not be raised as the stock price increases. This is part of a 3-to-1 profit-to-loss ratio. If you take 20% to 25% profits, take 7% to 8% losses.

You can be very successful and have a profitable portfolio even if you are right only half the time, if you learn to limit your losses and let your winners run.

O'Neil notes that investors must have patience when holding a stock with the expectation of price increases, and he suggests that investors wait at least 13 weeks before concluding that a stock is not advancing properly. He recommends taking profits when a stock has gained 20%, unless it is a particularly powerful stock with the possibility for stronger gains both for the stock itself and during a bull market. "Giant profits" in stocks, he notes, take one to three years.

O'Neil in Summary

The CAN SLIM system has great appeal to the active investor looking for growth stocks. While the approach is specific, it also stresses the art of investing when interpreting the direction of the market. O'Neil firmly believes that "most people in this country and throughout the free world, whether young or old, regardless of their profession, education, background, or economic position, should learn to save and invest in common stocks."

O'Neil notes that individual investors have the luxury of investing in only the best companies, while institutional investors have many constraints and restrictions that limit the types of companies they invest in as well as the timing of their investments. Investors should look for exceptional stocks and not chase after lackluster firms.

His approach has a growth focus, but it uses both fundamental and technical factors. The best summary of the approach comes from O'Neil himself:

"We're buying companies with strong fundamentals, large sales and earnings increases resulting from unique new products or services, and trying to time the purchases at a correct point as the company emerges from consolidation periods and before the stock runs up dramatically in price." ▲

John Bajkowski is president of AAII. Find out more at www.aaii.com/authors/john-bajkowski.