

## Growth Stock Investing Guide July 2013

### Summary guide for investing growth stocks while utilizing fundamental and technical analysis

This guide is based on the CAN SLIM approach as found in publications by William J. O'Neil and Matthew Galgani

### Big Rocks (key points)

1. Only buy stocks in a market uptrend. Take defensive action in a downtrend
2. Focus on companies with big earnings growth and a new innovative product or service
3. Buy stocks being heavily bought by institutional investors; avoid those they are heavily selling

### Buying Checklist

#### Big Rock 1 – market confirmation

- ✓ Market in confirmed uptrend

#### Big Rock 2 – big earnings and innovation

- ✓ Composite rating of 90 or higher (IBD proprietary calculation)
- ✓ EPS rating of 80 or higher
- ✓ EPS growth 25% or higher in recent quarters
- ✓ Accelerating earnings growth
- ✓ Average annual EPS 25% or more over last 3 years
- ✓ Sales growth 25% or higher in most recent quarter
- ✓ ROE >17%
- ✓ SMR =A,B
- ✓ New product, service, management
- ✓ Top of industry group
- ✓ Industry rank < 40/50

#### Big Rock 3 – Institutional investor support

- ✓ Fund ownership = increasing in recent quarters
- ✓ AD rating = A,B
- ✓ RS rating >80
- ✓ Share >\$15
- ✓ Daily share Vol > 400k
- ✓ Chart Analysis
- ✓ Breakout from base or alt. buy point
- ✓ Volume > 140% of average
- ✓ RS line @ new highs

### CAN SLIM defined

- C.** Current earnings: >25%.
- A.** Annual earnings: >25% last 3 years. ROE = >17%
- N.** New product or service: fuel for growth
- S.** Supply and demand: Positive volume action
- L.** Leader or laggard: leading stock in a leading industry
- Institutional sponsorship: increasing fund ownership
- M.** Market indexes: market in an uptrend

### Selling Checklist

#### Offensive selling – lock in profits

- ✓ Sell most stocks @ 20% - 25% profit above buy point

#### Defensive selling – cut losses short, protect gains

##### General market:

- ✓ Take defensive action when market is not in a confirmed uptrend

##### Stocks:

- ✓ Sell @ 7% loss

##### Technical Analysis:

- ✓ Single day decline with record volume
- ✓ Sharp drop below 50 day MA on heavy volume in months
- ✓ Sharp drop and close below 10 week MA with heavy volume

### Technical Analysis – keep it simple

#### Technical Indicators

Moving Averages

Weekly: 10MA, 40MA, Volume (10MA), RS (SP500)

Daily: 50MA, 200MA, Volume (50MA), RS (SP500)

#### Patterns

Cup w/ handle

Double bottom

Flat Base

3-week tight

Pullbacks (50MA, 10MA)