CANSLIM

Contributed by Travis Morien

Current earnings per share: In O'Neil's study, the best performing stocks showed a 70% average increase in earnings for the current quarter vs the same quarter a year ago, before they began to run up in price. His number one rule is to make sure the earnings are at least 20 to 50% up on this time last year.

Annual earnings per share: O'Neil's super growth stocks in his study showed an increase in earnings over the last five years of 24%pa on average. Ideally each year should be greater than the one that preceded it.

Look for earnings growth for the last year and for the last five years should be in the top 5% of companies. Something new: 95% of all companies that O'Neil saw later went on to become super growth stocks had something new about them just before they began their biggest moves. Something "new" might include a new product or service, a change in the industry, or new management. It could also be a new high in price for the stock. Shares outstanding: The "S" could also stand for supply and demand. O'Neil found that most of his companies had very few stocks outstanding, on average less than 11.8M outstanding, median amount only 4.6M. Thus many of the great growth stocks he buys aren't necessarily particularly liquid and do not have large followings with institutional investors. The companies he buys are often small, or alternatively may be a large company with only a few shares publicly traded. Competition for these shares is keen and obviously you need to pay a high price to get hold of the stock you want. While this would scare off most value investors you probably ought to remember that others will be competing to buy your stocks off you once you own them. Leader or laggard: The 500 best performing stocks in O'Neil's survey had price increases in the previous 12 months that put them in the top 13% of all stocks. O'Neil only buys stocks from the top 20% (quintile) of all stock returns for the last year. Institutional sponsorship: This one might be a little dodgy, Peter Lynch for one sees it as a handicap, but O'Neil likes to see professional buying of this stock. Institutions make the market for stocks and create the largest demand. O'Neil does see very wide ownership of a stock to be a disadvantage though, if all the funds already own it the stock may already be too late to buy. Market direction: Three out of four stocks move in the same general direction as the market, so O'Neil confines his buying to bullish times, often selling stocks when the market is falling. Although not a full time chartist, O'Neil does use technical analysis extensively to judge the mood of the market.