CANSLIM: What does this William O’Neil acronym stand for?

C = Current Accelerating Q Earnings and Sales per Share

1. What is the difference between the statistics in Q earnings growth from 1910-1950 and 1952-2001 and what is the implication behind the difference? P. 153
2. What’s an insufficient number for profit gains? P. 154. What’s the relationship between profit, earnings, net income and bottom line?
3. What should be the relationship between sales growth and earnings growth? P. 155
4. What should be the relationship between net income and EPS? P. 156
5. Should you compare earnings to the prior quarter or to the quarter a year earlier? P. 156
6. What about extraordinary gains? What’s a common example of extraordinary gains?
7. What’s a minimum level of increase in quarterly earnings? In a bull market? In a bear? Coming out of a bear? Non-seasonally based unusual comparisons? P.157
8. What about consensus estimates? (They’re still opinions. P. 162)
9. What is the caveat about earnings in the late stage of a bull?
10. What about older companies? See the N chapter for more on that.
11. What does he say about earnings acceleration? Earnings surprises? Beating estimates? P.157-8
12. What sales growth percentages in new companies does he like? What’s the minimum for the past quarter, or the minimum number of accelerating quarters? What’s a standard trap for investors? What does he say about profit margins?
13. How does he define material slowdown in earnings and how many quarters of this must there be before he turns negative? P.159
14. Why is it better to look at weekly log charts (A. Because that’s what he sells in DGO. B. It’s easier to grasp visually. Why?) What charts should be construct on our own?
15. What is an additional validation step when you’re picking a stock? P. 159-160
16. What’s the bare minimum for Q earnings growth and what would you really like to find?

A= Annual Earnings Increases. Big growth.

1. What is the minimum number of years with increased annual earnings? P. 161
2. What’s the minimum rate of increase?
3. If you accept one down year in five, say, what must the following year’s earnings do? P. 162
4. What’s the minimum ROE?
5. What’s the cash flow to EPS ratio that would be nice to see?
6. Explain how WON calculates his earnings stability number and its significance.
7. How long is the average bull market? P. 163
8. Which stocks are the first to lead in a bull? What makes their P/E compelling to institutional investors at this point?
9. Which stocks lag early in a bull? P. 164
10. Why did cyclicals do so well starting in 2003?
11. Compare the duration of rallies in cyclicals to rallies in growth stocks.
12. What industries comprise the cyclical stocks?
13. What figure do turnarounds require for annual and quarterly earnings growth?
14. If you have, say, 30% annual growth, what should you NOT see in quarterly growth? P.165
15. How is IBD’s EPS rating calculated?
16. In an IPO w/o a three-year earnings record, what should you look for instead? P. 166
17. What is the average rate of expansion, with average bookend numbers, for growth stocks in an uptrend? P.166. Will value investors catch this move?
18. Describe the cause/effect process for P/Es. Name the one exception to the rule. P. 167
19. What trend can a change in P/E’s alert you to?
20. How does WON use P/E’s? P.167-8
21. What is the difference in P/E expansion between growth and cyclical stocks?
22. Explain the two reasons P/E can peak. P.169
23. The examples on p.169 could easily belong in another chapter. Which one?

N= New Companies, Products, Management, Highs off Proper Bases.

1. What three conditions can produce a major advance in a stock?
2. What conditions enhance the prospects of a stock on the NH list? P.176 para 1.
3. What chart conditions enhance the prospects?
4. How long should a base last?
5. What is the danger with buying even a great stock when it’s extended from a breakout?

S=Supply and Demand. Big Volume Demand at Key Points.

1. Explain the difference between shares outstanding, and float. P.181
2. What numbers of shares outstanding would you like to see?
3. What percentage of stock ownership by management is desirable?
4. What’s the fundamental reason large share numbers are undesirable?
5. What’s the condition that allows for an exception?
6. Why does a new product from an old company not necessarily help the stock? P.182
7. Why do too many splits hurt a stock?
8. What’s the short term effect of a stock’s first split in a new bull market?
9. Explain three reasons stock splits can be a red flag. P.182-3
10. What do stock buybacks generally imply, and what’s the underlying mechanism?
11. When are stock buybacks not such a good idea?
12. How does the corporate debt to equity ratio impact stocks?
13. What are some things that could dilute a stock?
14. Why should a corporation that’s been reducing debt as a percentage of equity be considered?
15. What do you want to see in terms of volume on down days and on up days?
16. What’s the minimum increase in volume you want to see during breakouts?
17. How do you look at a base? This is in this section because it deals with new breakouts.

L= Leader or Laggard.

1. What are the characteristics of a leader in an industry group? P.187
2. What does the leader do to other companies in the industry?
3. What was the RS of average winners **before** their run-ups? P.189
4. What RS numbers should you pick from?
5. What are the RS numbers of winners as they break out from from a first or second stage bases?
6. What’s the outside limit, percentagewise, from a buy point? P.190
7. What’s the usual correction of growth stocks versus the market in general?
8. In a correction during an uptrend, what should you look for in leaders?
9. Once the bear is over, which stocks are the leaders? How long do the breakouts last?
10. How do you tell the difference between normal and abnormal price declines? P. 192
11. What should you look for during a weak market day, or even a weak market?
12. Does this chapter really focus on the difference between leaders and laggards within a group?
13. How else can we tell the difference? We need to do some research on this.

I=Institutional Sponsorship

1. What is the minimum number of institutional owners a stock should have? P. 193
2. If a stock doesn’t have this minimum, explain the likely causes and consequences.
3. What is the process for checking out the quality of institutional sponsorship? P.194
4. Why are new positions in a fund more important than existing positions? P. 195
5. How can you tell whether a stock is overowned? What are the potential consequences? P.196
6. What does institutional sponsorship mean to our individual accounts? P.197

M=Market Direction. This is the mother of all chapters.

1. What is the first thing you should know about a bull market? P.199
2. What is the percentage decline in a normal intermediate correction?
3. What is the other relationship you need to know about the market’s action?
4. What is the main IBD criterion for determining whether you should raise cash?
5. Why can’t big fund managers time the market? P.200
6. What kind of turnarounds do you have at market bottoms?
7. Define the general market. P.201
8. Recognizing tops and bottoms is what percentage of your gains/losses? P.202
9. What is the distribution day rule? P.203
10. How many fakeouts do you get at tops and bottoms?
11. Is the market a leading, coincident, or lagging indicator?
12. Why is there no point in looking at economic indicators when gauging the market? P.204
13. Which industry groups do best in which phases of a market cycle?
14. What is the difference in intraday action between bull and bear markets?
15. What’s a nice contrary indicator? P.206
16. What’s the rebound necessary for the S&P to recover from the 2007-8 bear?P.207
17. What’s the average length of a bear market? P.207-208
18. What’s WON’s opinion about stop and limit orders? P.208-9
19. When signs of the bear first show up, is the market declining or advancing? P.209-210
20. What are these signs?
21. Numerically, how many signs during how long a period almost always signals a downturn?
22. Why is it so hard to catch a market top?
23. How many indexes need to show the signs?
24. What’s the definition of a distribution day?
25. What are the two possibilities after the initial decline?
26. What are the signs the new rally may fail?
27. What is the other indicator you should be looking at?P.213
28. What stage are the riskiest bases? What do risky bases look like?
29. Define a climax top.
30. What does it mean when they say they save the pretty girls for last? What’s the best example of that in the 2007-2008 bear?
31. There are two expressions: Watch out when the old dogs begin to bark, and, even turkeys fly in a windstorm. Explain them. P.218
32. When do top reversal s typically happen in an attempted rally that’s about to fail?
33. Explain the process whereby a market regains its high within a few months? P.218-219
34. How many phases does a bear usually have?
35. How long does a bear market rally usually last?
36. What is the dilemma about catching a market bottom?
37. Define the first day of an attempted rally. P.220
38. Define a follow through day. When do they usually take place?
39. What is the exception and what circumstances must surround it?
40. Define a constructive pullback, aka test.
41. What’s the ultimate truth about the FT day? P.221
42. When do you make most of your money in a bull? P.223
43. How long and deep are the normal intermediate corrections in the first few years of a bull?
44. When should you look for heavy volume without further upside progress? P.224
45. Why can market divergences often signify a market turning point? P.225
46. Name other secondary and not-infallible indicators. P.225-226
47. The A/D line. P. 226 Some questions: If the A/D line veers lower before a market tops, then isn’t that a leading indicator as opposed to a useless indicator? Moreover, if a market advances because of better stocks, then doesn’t that contradict the portion about the old dogs and turkeys?
48. Fed rate changes. How many hikes generally signal the start of a decline? P.227
49. When is the best time to look at hourly volume figures? P.230
50. Define “shakeout. ” P.231
51. What is WON’s opinion of overbought/oversold indicators?
52. How can you tell U/D volume on your own? P.232
53. Why is a high number of stocks making new highs an iffy indicator?
54. Is it more important to know what the market is going to do or what it has just done?
55. If ROE is low, what should be high? (This belongs in the A chapter.)