

O'Neil, William J. - How to Make Money in Stocks

Prentice Hall, 4th edition 2011, [Equity Investing] Grade ★★★★★

William O'Neil was born in 1933 and in 1963 he founded the company that bears his name. His company developed the first computerized daily securities database and he is still very active promoting his services of which this book probably is his bestselling tool. Based upon his research studying the track record of past investor legends and what the best performing stocks have in common, he developed his investment strategy, called CAN SLIM. This focuses on buying stocks that are performing relatively strongly as well as having a fundamental momentum. The first version of the book was published in 1988, and since then I have had the pleasure of reading the following four editions of this book. They don't differ much from the original but have updated comments.

O'Neil's key message is to focus on momentum, and change. Instead of fearing or having disbelief in stocks that trade on 25-50 times earnings and making new highs, he advocates them using his CAN SLIM system. I think every value investor should read this book. It would prevent them from buying apparently cheap value traps in bad industries etc.

The book is divided in 3 parts. In the first part it's all about his winning system, CAN SLIM. The second part is called, "be smart from the start" and the third part is called "investing like a professional". It's written in a very easy language, but to me it's a bit too much of a commercial. The negatives with this book are that's sometimes I get the feeling that the book is written with the sole purpose of promoting O'Neill's newspaper and brokerage business. Another negative is that very rarely are there any issues or problems with his strategy. But overall the positive clearly outweighs the negatives.

The CAN SLIM method is an easy to understand framework to give you necessary focus on the dynamics of the stock, and its fundamentals. It focuses you on Current and Annual earnings growth as well as what is driving that, what is the New; products, management etc. After the fundamentals, it also looks at the chart, and some technical factors, Supply and demand for the stocks, if a stock is a Leader/Laggard in the market, in its industry, does it have Institutional sponsorship and finally in what direction is the overall Market heading. Compared to other authors that advocate a more dynamic approach to stocks like Jesse Livermore, Edwin Lefevre, or pure technical ones like Martin Pring, this actually brings the fundamentals to the forefront, trying to learn from previous success stories in the stock market, and to see to what extent these new ideas qualify as a potential ten-bagger.

In the early 90's I found myself too often buying stocks that had fallen out of favor and were looking cheap, only to learn they could get cheaper and also that there could be good reason for the cheapness. Bad fundamentals often turned into even worse fundamentals, and maybe even structural issues. After reading this book I got a more focused on what drives stocks, positive news (for big moves). I think all value investors, like me, should read this book to focus to a larger extent on growth and opportunities. Or at the very least avoid cheap stocks in dying industries, were often a "new technology growth" company are changing the dynamics of the industry. Think for example about Amazon vs companies selling electronics/books etc.

As a final note, O'Neil's favourite book is Gerald Loeb's, The Battle for Investment Survival. This is another book to recommend if you need a more dynamic approach to your investing.

Bo Börtemark, May 1, 2012