Twitter Thread by TraderLion

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An Introduction to CANSLIM (Thread)

CANSLIM is a growth stock investing strategy developed by William O'Neil.

O'Neil was the founder of Investor's Business Daily and in 1964 he became the youngest person to ever purchase a seat on the New York Stock Exchange at age 30.



O’Neil's success came from studying the greatest winning stocks of all time and the methods of the most successful investors of all time including Bernard Baruch, Jesse Livermore, Gerald M. Loeb, Jack Dreyfus, and Nicolas Darvas



From this research, he distilled 7 key characteristics which showed up again and again in the top-performing stocks of every market cycle.

Together they form the acronym CANSLIM

Current Quarterly Earnings Growth
Annual Earnings Growth
New Products/Services/Management/Price Highs
Supply and Demand
Leader Versus Laggard
Institutional Sponsorship
Market Direction

C In CANSLIM

In terms of Current Quarterly Earnings, we are looking for increases over the same quarter in the prior year of at least 25%.

For this metric the higher the better and preferably there is also excellent sales growth and improving margins.

https://t.co/vBSMI1EUOM

A in CANSLIM

For Annual Earnings Growth, we are looking for 25% growth over the past few years.

Also, look for turnaround stories, breakout years, and exceptional Annual EPS estimates for the current year and the next.

https://t.co/CjVu9Q0HCH

N in CANSLIM

The New factor in CANSLIM is where the story of the company comes into play and this by itself can produce incredible appreciation in a company's stock price.

N in CANSLIM

Look for new and revolutionary products and services which change how we live our lives and with large total addressable markets.

The N also looks for stocks hitting new price all-time price highs which is a clear sign of a stock in demand

https://t.co/wAUzyIS9vx

S in CANSLIM

Supply and demand is another key characteristic to consider when it comes to selecting high potential stocks.

S in CANSLIM

It's important to understand how the # of shares in the float affects a stock's price movements and how the price of a stock is determined.

To judge supply and demand we analyze price and volume charts to look for institutional footprints.

https://t.co/69Htt5DNhW

L in CANSLIM

Determining whether a stock is a leader or a laggard is another important component of stock selection.

Here we are looking for Relative Strength signs and outperformance relative to the market even before an uptrend begins.

L in CANSLIM

In short, we are looking for the leading stocks in the leading industry groups with excellent fundamentals as well as price and volume action

https://t.co/3SlaWOgEJM

I in CANSLIM

For institutional sponsorship, we are watching for an increasing trend in the amount of fund ownership as well as high-quality growth funds with excellent track records starting positions.

I in CANSLIM

These institutions have access to the best analysts and data available and once they begin accumulating shares we can ride the uptrend that their buying support creates.

https://t.co/pcRGPsOfrH

M in CANSLIM

The most important component is the market since ¾ stocks follow the overall trend.

We need to be able to determine both when the tide is on our side and also when to take a step back from the markets and wait until conditions improve

https://t.co/1DsKU6dKxm

Overall, the CANSLIM methodology provides an excellent foundation to build from as you develop as a trader.

You may adapt certain criteria and find your own edges but it's certainly worth learning especially if you are new to the markets.

https://t.co/gRYACxAvhD

You should also read O’Neil’s How To Make Money In Stocks and study the charts at the beginning of the book showing many of the greatest winners O’Neil studied to develop CANSLIM

https://t.co/1HiN8dmV8C

You can also find video walkthroughs of many of these historical stocks on the @TraderLion_ Youtube Channel

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