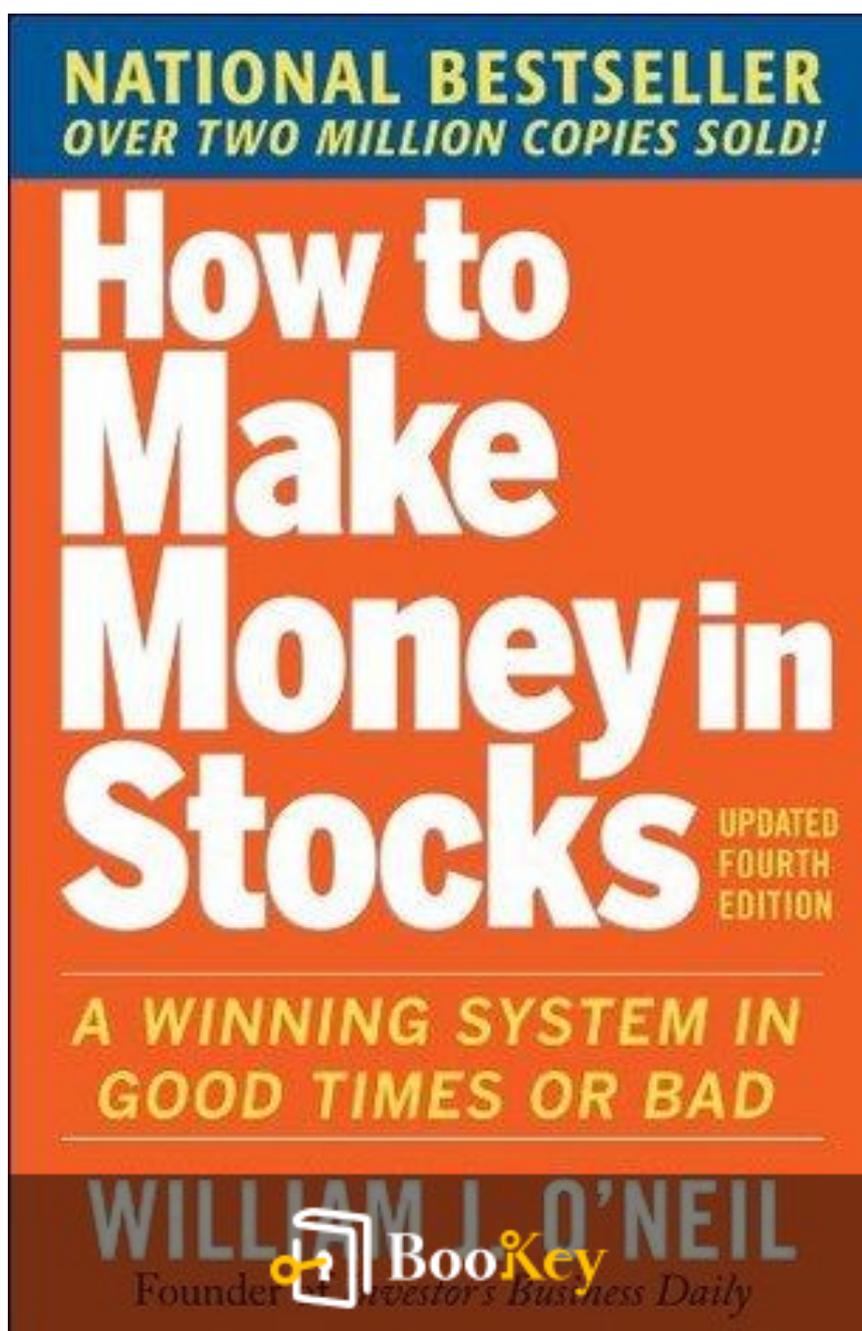


How To Make Money In Stocks PDF (Limited Copy)

William J. O'Neil



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How To Make Money In Stocks Summary

"Mastering Investment Strategies for Long-Term Financial Success"

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About the book

In the ever-evolving world of finance, discovering a reliable guide to navigating the stock market can feel like finding a beacon in the dark. "How To Make Money In Stocks" by William J. O'Neil stands out as a timeless masterpiece, promising readers the keys to unlock financial success. As the architect of the pioneering CAN SLIM strategy, O'Neil combines empirical research with practical wisdom, illuminating a clear path to profitable investing. Whether you're a novice eager to dip your toes into the world of stocks or a seasoned investor seeking more refined tactics, O'Neil's method reveals the patterns and principles that have powered the most successful investments over the decades. Prepare to embark on an enlightening journey where every chapter is laced with insights that empower you to decode market movements and make informed, confident financial decisions. This is not merely a book; it's a strategic blueprint for crafting a lucrative investment journey.

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About the author

William J. O'Neil is a distinguished American entrepreneur, stockbroker, and author renowned for his deep insights into stock market investments. Born on March 25, 1933, in Oklahoma City, O'Neil's passion for finance was nurtured from an early age, leading him to earn a degree in business from Southern Methodist University. His career began at Hayden, Stone & Company where his innovative observation of investment patterns led him to develop the CAN SLIM strategy, an influential investment system combining both fundamental and technical analysis. In 1963, O'Neil founded William O'Neil & Co. Inc., an investment research firm, and based in Los Angeles, he pioneered smart investment models long before the era of tech-driven trading. A visionary in financial publishing, O'Neil launched Investor's Business Daily in 1984, offering an unmatched resource for individual investors and establishing himself as a key voice in financial literacy. His seminal book, **How To Make Money In Stocks**, encapsulates his market philosophies and strategies, continuing to guide countless investors in the pursuit of financial prosperity.

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chapter 1 Summary: The Greatest Stock-Picking Secrets

Chapter 1 of this stock market guide introduces readers to the notion that successful stock-picking is an attainable skill through studying historical patterns. The chapter emphasizes analyzing charts of the greatest stock market winners from 1880 through 2008, showcasing how understanding historical data and chart patterns can lead to informed investment decisions.

For readers new to investing, the chapter reassures that mastering chart reading is a learnable skill. It stresses the significance of recognizing specific chart patterns that have consistently indicated professional accumulation. By understanding these signals, investors can identify the best times to buy or sell stocks. The chapter argues that informed stock selection involves identifying companies with significant increases in sales, earnings, and return on equity while observing strong chart patterns indicative of institutional buying.

Throughout the chapter, a selection of historical stocks is presented, each with significant price increases within specified time frames. These examples, ranging from Richmond & Danville to Microsoft and Qualcomm, illustrate the potential of well-timed investments in fundamentally strong companies, highlighting how some firms achieved astronomical growth percentages in relatively short periods.

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The narrative ties these historical success stories to the broader concept of the American dream, suggesting that just as these companies grew and thrived, individuals can harness similar opportunities through strategic stock-picking. The underlying message encourages persistence, ambition, and a belief in oneself and the possibilities offered by the American economy.

By studying these charts and understanding the repeated patterns, investors can learn how America and its businesses grow and evolve, providing insights into achieving financial growth and success.

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chapter 2 Summary: How to Read Charts Like a Pro and Improve Your Selection and Timing

Chapter 2: How to Read Charts Like a Pro and Improve Your Selection and Timing

In the realm of medicine, professionals rely on various imaging techniques like X-rays and MRIs to diagnose patient conditions accurately. Similarly, in investing, stock charts serve as critical diagnostic tools for understanding market conditions and making informed decisions. Just as you wouldn't want a doctor to operate without appropriate tests, investing without consulting stock charts can lead to financial missteps. These charts reveal the price changes of stocks due to the forces of supply and demand, providing insights into whether a stock is under accumulation (a positive sign) or behaving abnormally.

Chart reading is akin to using a road map for a journey, providing a structured overview of the market landscape. Many investors overlook this vital tool, thereby missing signs of stock volatility or impending downturns. Fortunes are made by those who master this skill, while high-level investors dismissive of it often suffer career setbacks. A company with robust earnings and sales may look promising, but without chart analysis, even stocks with good fundamentals could be bought at inopportune times,

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leading investors astray.

As investor numbers grow, chart services and online resources have become increasingly accessible. These services offer a wealth of information, accommodating both fundamental and technical analyses, crucial for navigating market complexities.

Historical Precedents and Chart Patterns

Understanding that history repeats itself is pivotal in stock selection. Previous winners often show common characteristics encapsulated by the CAN SLIM method—a strategy based on studying historical stock performance patterns. Familiarizing oneself with these recurring price patterns—formed when stocks correct and consolidate before a new price advance—can be extremely profitable.

One notable pattern is the "Cup with Handle," where a stock's price forms a distinctive "U" shape before climbing. Such patterns, which may last several weeks, indicate solid stocks preparing for major advances. However, wide and loose patterns often spell failure, cautioning investors to avoid them.

Volume as a Key Indicator

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Volume provides clues to when professionals are buying or selling stocks. At breakout points, significant volume increases signal institutional buying, marking the right moment to invest. Conversely, heavy selling during corrections suggests weakness. Proper timing involves buying not at the absolute low but at the pivotal "pivot point," indicative of impending upward movement.

Other Chart Patterns

Beyond the "Cup with Handle," there are "Saucer with Handle," "Double-Bottom," "Flat-Base," "Square Box," and "High, Tight Flag" patterns. Each carries its own indications and investment strategies. Bases that form on top of others suggest strong stocks ready to advance when market conditions improve, while ascending bases occur within ongoing upward trends, indicating continued strength.

Avoiding Failure-Prone Patterns

Investors should avoid patterns like "Wide-and-Loose," which are prone to failure. Such patterns can intimidate even seasoned investors due to their erratic nature. Instead, successful chart analysis involves recognizing reliable

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structures that indicate upcoming stock increases. An understanding of concepts like "overhead supply"—resistance from previous buyers looking to sell at break-even—can further sharpen strategy.

Bear Markets and Renting Investment Strategies

Bear markets discourage successful breakouts, as patterns become unreliable. The recommendation is to avoid buying during these times and instead focus on analyzing past investment mistakes, enhancing future strategies, and waiting for a healthier market climate. By studying historical patterns and adjusting tactics accordingly, investors can prepare for the next market upswing.

Cumulatively, mastering chart analysis equips investors to navigate the stock market's complexities, optimizing selection and timing to align with historical trends and patterns.

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Critical Thinking

Key Point: Understanding the "Cup with Handle" Pattern

Critical Interpretation: Imagine holding in your hands a roadmap that not only tells you where you've been but also anticipates the path to your future destinations. Understanding stock price patterns, such as the 'Cup with Handle,' is your guiding star in the financial universe. This unique pattern, which charts a defining 'U' followed by a handle, signals a readiness in a stock for new heights. By mastering this pattern, you breathe life into historical insights, tapping into a wellspring of market wisdom refined over decades. You learn to differentiate the promising stocks from those weighted by instability, ensuring that your investments are sowed at the right moment — when the stakes are low and the potential is poised for realization. The 'Cup with Handle' doesn't just illuminate stock market ebbs and flows — it inspires you to adopt a diligent, informed approach towards your financial aspirations, echoing the importance of preparation and timing in all life's ventures. This ensures that when opportunities emerge, you're not just present — you're ready to seize the transformative gains they offer.

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chapter 3 Summary: C = Current Big or Accelerating Quarterly Earnings and Sales per Share

Chapter 3C focuses on a key indicator for successful stock selection: current quarterly earnings and sales per share. The chapter begins with the impressive performance of companies like Dell, Cisco Systems, America Online, Google, and Apple, highlighting their significant stock price gains due to extraordinary earnings reported in the quarters leading up to those increases. The common trait among these market winners is the substantial rise in earnings per share (EPS) just before their stock prices soared.

Historically, explosive earnings have driven big stock moves, as demonstrated by companies like Studebaker, Cuban American Sugar, Stutz Motor Car, U.S. Cast Iron Pipe, and du Pont de Nemours. These examples underline the importance of major earnings increases in identifying potential stock market superstars. The chapter emphasizes that a major percentage increase in current quarterly EPS, compared to the same quarter in the previous year, is crucial for stock selection.

The analysis from 1952 to 2001 of the 600 best-performing stocks shows that three out of four had earnings increases averaging more than 70% in the last reported quarter before a significant price rise. Even stocks with modest gains, like Priceline.com with an initial increase of 34%, later showed significant earnings acceleration. The text asserts that only a small

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percentage of stocks on exchanges display such earnings growth, underscoring the value of seeking extraordinary stocks.

Investors are cautioned against falling for superficial earnings stories, particularly during speculative periods like the late 1990s Internet boom. Many internet companies lacked solid earnings, unlike leaders AOL and Yahoo!, making them risky investments. Investors should avoid companies with flat or declining earnings and aim for stocks showing significant EPS gains.

Current quarterly earnings reports can be misleading, often showcasing nonrecurring profits or diluted EPS due to share increases. Investors should compare EPS to the same quarter from the previous year, setting a minimum benchmark of 18% to 30% growth, with higher values preferred during bull markets. It's advised to anticipate strong or weak upcoming earnings by considering prior year's results and analyst projections.

Caution should be exercised against buying stocks with recent earnings declines, as many strong performers demonstrate earnings acceleration in the quarters before major price rises. For assurance, investors should look for corroborative sales growth alongside earnings growth and check consensus earnings estimates. Monitoring profit margins and comparing other stocks in the industry can also provide insights.

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Quarterly earnings reports reveal acceleration or deceleration trends, vital for identifying stock potential. Investors can plot earnings data on logarithmic graphs to assess growth trends. The chapter finally emphasizes that the current quarterly earnings per share should show a major increase of at least 25% to 50% over the same quarter the previous year to be considered a winning stock. This focus on EPS serves as a core rule in identifying potential market leaders.

Key Topic	Description
Core Indicator	Current quarterly earnings and sales per share.
Historical Examples	Success observed in companies like Dell, Cisco Systems, America Online, Google, and Apple due to strong earnings.
Historical Analysis	From 1952 to 2001, 75% of top stocks showed last quarter EPS increases of >70% before price surges.
Stock Selection Criteria	Major EPS increase compared to the same quarter of the previous year, with minimum 18%-30% growth.
Risks and Cautions	Be wary of speculative trends without solid earnings foundation. Avoid stocks with flat or declining earnings.
Analysis Approach	Compare EPS with previous year's quarter, anticipate earnings trends, avoid superficial gains.
Supporting Indicators	Look for corroborative sales growth, check profit margins, and compare peers within the industry.
Analytical Techniques	Utilize logarithmic graphs to assess growth trends and identify acceleration or deceleration in earnings.

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Key Topic	Description
Conclusion	EPS should show a 25%-50% increase over the same quarter from the previous year to identify potential market leaders.

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chapter 4: A = Annual Earnings Increases: Look for Big Growth

Chapter 4A Summary: Annual Earnings Increases: Look for Big Growth

Investors seeking the next market-winning stock must focus on consistent and robust earnings growth, both quarterly and annually. A single strong quarter can be misleading; therefore, a thorough examination of a company's annual earnings growth over the past three years is crucial. A solid track record, without significant dips, indicates a healthier, more sustainable growth trajectory. Notably, profitable stocks historically show an annual earnings growth rate of 25% to 50% or more.

Criteria for Selecting Growth Stocks:

- 1. Annual Earnings Growth:** Seek companies showing annual earnings per share increases consistently over the last three years. Avoid stocks where earnings dip and then rebound, as sustained growth is a key indicator.
- 2. Return on Equity (ROE):** A high ROE, typically at least 17%, is a marker of efficient management. Exceptional growth stocks often exhibit an ROE between 25% and 50%.

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3. **Cash Flow Per Share:** A solid measure of a company's internal cash generation that often surpasses actual earnings per share.

4. **Earnings Stability and Consistency:** Evaluate the stability of a company's earnings with a focus on minimal deviations. Growth stocks often have a low stability rating, indicating consistent upward trends in their quarterly earnings over recent years.

Understanding Stock Market Cycles:

Stock market cycles traditionally alternate between bull and bear markets. Growth stocks generally lead the way during new bull markets, initially held back during downtrends despite growth. Historical cycles show that while young growth stocks dominate early phase, cyclicals often eventually gain prominence.

P/E Ratios and Stock Selection:

Contrary to popular belief, price-to-earnings (P/E) ratios play a minimal role in determining a stock's potential for long-term success. Instead, the focus should be on the percentage increase in earnings per share. High P/E ratios,

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often viewed negatively, could indicate robust growth potential, especially during bull markets.

Avoiding Common Pitfalls:

- 1. Misplaced Emphasis on P/E Ratios:** Many analysts mistakenly use P/E ratios as the primary measure of a stock's value. However, fluctuations in P/E often reflect market conditions rather than intrinsic stock value.
- 2. Ignoring Promising High-Earnings Stocks:** By disregarding stocks with higher P/E ratios, investors risk missing significant opportunities akin to historical successes like Microsoft and Google.
- 3. Valuating Industry Stocks Flawedly:** Evaluating stocks within an industry based solely on P/E ratios can lead to poor investment choices, as these valuations might overlook more comprehensive growth indicators.

Successful Investment Strategies:

Focus on companies with comprehensive three-year growth records and recent quarterly improvements. The true key to identifying super stocks lies in the synergy between consistent past growth and current strong

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performance rather than any singular metric like P/E ratios.

Remember, the best growth stocks typically demonstrate solid annual records with accelerating earnings, making them standout candidates for investment, irrespective of conventional P/E biases.

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chapter 5 Summary: N = Newer Companies, New Products, New Management, New Highs off Properly Formed Bases

Chapter 5 explores the critical role of innovation and novelty in driving substantial stock price advances. The chapter posits that remarkable growth in a company's stock often stems from new products, services, management, or industry conditions. These elements can catalyze rapid increases in earnings and market value, helping stocks reach new highs.

Historically, from 1880 through 2008, over 95% of the most successful stocks in American industry have thrived on such novelty. The chapter highlights how transformative innovations—such as the transcontinental railroad, electricity, the telephone, and later inventions like automobiles, airplanes, and computers—have been pivotal in propelling entire industries and creating millions of jobs. These innovations not only enhanced the standard of living in the United States but also solidified America's position as a hub of creativity and opportunity.

The chapter lists numerous companies that experienced explosive stock price growth due to ground-breaking products or services. Examples include General Motors, RCA, McDonald's, Cisco Systems, Apple, Google, and many others. Each company introduced something new that changed the way people lived or businesses operated, resulting in impressive financial

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returns.

The chapter also introduces the "Great Paradox" of the stock market: what seems overpriced and risky to most investors often continues to appreciate, while seemingly cheap stocks tend to depreciate. This paradox challenges the traditional "buy low, sell high" aphorism. Instead, the research suggests focusing on stocks making new highs and breaking out of well-formed bases, as they frequently signal the start of significant price advances.

A practical investment strategy is put forward: investors should look for companies pushing out innovative products or improving through new management, and purchase their stocks when they are breaking out from stable price consolidation patterns during a bull market.

The chapter concludes by encouraging investors to remain vigilant and proactive in identifying future trends and opportunities. The American market's characteristic freedom and opportunity are underscored as key enablers of innovation, suggesting that staying informed and ready could allow investors to benefit from the next wave of big market winners.

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chapter 6 Summary: S = Supply and Demand: Big Volume Demand at Key Points

In Chapter 6, the fundamental economic principle of supply and demand is emphasized as a critical factor influencing both the prices of everyday goods and stock market dynamics. In the stock market, the supply and demand for shares determine a stock's price trajectory, often overshadowing even expert analyses.

Stock Supply and Demand Dynamics: Stocks with a large number of shares, such as those with 5 billion outstanding shares, require vast buying volume to affect their price due to their extensive supply. In contrast, stocks with fewer shares, like those with 50 million, can see price movements with comparatively less buying activity, making them potentially better performers. Nevertheless, these smaller-cap stocks carry higher risks alongside opportunities, as they are less liquid and can drop in price rapidly. The floating supply of a company's shares—the shares available for purchase after deducting those closely held by insiders—also plays a significant role. Companies where management holds substantial stock stakes often indicate stronger prospects, as their leadership is personally invested in the company's success.

Large vs. Small-Cap Stocks: Although larger-cap stocks have advantages such as liquidity and stability, they tend to grow slower due to

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their sheer size and often conservative management. This trend was disrupted in the 1990s when mutual funds, flush with new investments, boosted larger-cap stocks' performance. Still, smaller, entrepreneurial companies, particularly those in tech and service sectors, tend to drive job creation and economic growth due to their innovation and faster growth rates—evident with examples like Microsoft and Oracle.

Stock Splits and Share Buybacks: Excessive stock splitting can artificially inflate supply, potentially affecting a company's stock performance, especially in bear markets. Companies often split stocks to attract more buyers by lowering individual share prices, but overly large splits could prompt selling rather than buying, as savvy investors may see it as a chance to take profits. Conversely, when a company consistently buys back its stock, it reduces supply, often signaling positive future prospects and boosting earnings per share, as seen with historical examples like Tandy and Metromedia.

Debt and Leverage Considerations: Investors should favor companies with low debt-to-equity ratios, as high leverage can be perilous during economic downturns, impacting earnings. The 2008 financial crisis highlighted the risks of excessive leverage, stressing that over-borrowing is detrimental. A declining debt ratio is often a positive signal, reducing interest burdens and enhancing profitability.

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Evaluating Stock Performance: Monitoring daily trading volume is vital for assessing a stock's supply and demand. High buying volume during a price rally often suggests institutional interest, while reduced selling pressure during price dips indicates stabilization. Proper chart reading, as detailed in earlier chapters, is crucial for identifying price patterns and potential breakouts, guiding investment decisions using systems like CAN SLIM—particularly mindful of the inherent volatility in small-cap stocks compared to their large-cap counterparts.

Overall, Chapter 6 underscores the importance of supply and demand in shaping stock prices, recommending investors consider company size, management stakes, market conditions, and financial health when evaluating potential investments.

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chapter 7 Summary: L = Leader or Laggard: Which Is Your Stock?

Chapter 7 of the book focuses on distinguishing between leader and laggard stocks, emphasizing the importance of identifying and investing in leading stocks to achieve substantial returns. It starts by highlighting a common investor tendency: buying stocks based on comfort or sentiment rather than performance. In a bull market, it's crucial to invest in dynamic leaders known for their consistent outperformance, rather than opting for seemingly safe but underperforming laggards.

The chapter notes that in industries like tech in the late 1970s and early 1980s, companies like Wang Labs and Tandy delivered exceptional returns, contrasting with giants like IBM, which only performed better later. Likewise, in retail, Home Depot vastly outperformed its competitors from 1988 to 1992.

Emphasizing the importance of investing in leading companies, the author shares a list of various successful investments made in top industry companies. However, these aren't the largest or most famous companies but those showing superior growth metrics such as strong earnings, return on equity, and sales growth while capturing market share with unique offerings.

The concept of "sympathy stock moves" is introduced, where investors buy

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stocks in the same industry as a leader, expecting similar success. These usually don't perform as well, underscoring Andrew Carnegie's point that innovators lead the pack.

The chapter outlines methods to separate leaders from laggards, notably using Relative Price Strength (RS) Rating from Investor's Business Daily. A high RS Rating indicates a stock is outperforming the market, while low ratings signal lagging stocks. Historical data shows successful stocks typically have RS Ratings of 87 or higher before major run-ups. Investors are urged to seek out stocks with high RS Ratings in sound chart base patterns to maximize potential gains.

Market corrections are seen as opportunities to identify new leaders. The better growth stocks during corrections are those that fall less than others, indicating strength. Once a market decline ends, the first stocks to hit new highs are the true leaders, offering prime buying opportunities.

The chapter cautions against buying stocks after major price drops, often viewed as bargains. Several historical examples demonstrate the risks of purchasing stocks solely because they appear cheap, as this can lead to significant losses.

Investors are encouraged to develop and adhere to strict buying and selling rules to avoid financial pitfalls. Stops at an 8% loss threshold help minimize

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damage. By thoroughly analyzing market action rather than relying on stories or traditional valuation metrics, investors can make more informed decisions.

Lastly, the chapter advises looking for abnormal strength in stocks, even in weak markets, as such behavior indicates strong future potential. Historical instances, like Control Data in 1967 or Qualcomm in 1999, exemplify stocks that thrived despite overarching market challenges.

In summary, the chapter underscores the critical importance of identifying and investing in market leaders through rigorous analysis and disciplined strategies, steering clear of lagging stocks despite their superficial appeal.

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chapter 8: I = Institutional Sponsorship

Chapter 8 delves into the concept of institutional sponsorship, which is crucial for understanding stock market dynamics. Institutional investors—like mutual funds, pension funds, hedge funds, insurance companies, and large investment firms—are the main drivers of stock demand, influencing market prices significantly. These entities represent a substantial portion of daily market activity, making their participation a key metric for investors.

Institutional Sponsorship and Its Importance:

Institutional sponsorship refers to stocks owned by such large investors. Unlike brokerage reports or analyst recommendations, which may briefly impact stock prices, institutional sponsorship highlights a stock's long-term potential through substantial buying or selling actions. A winning stock doesn't necessarily require numerous institutional backers but should have a few high-quality sponsors, suggesting that seasoned investors see potential in it. Stocks without any professional sponsorship are more likely to show mediocre performance, as they likely haven't passed the scrutiny of over 10,000 institutional investors.

Identifying Quality Sponsorship:

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Investors should assess not only the quantity but also the quality and recent trends in institutional sponsorship. A rise in the number of reputable institutional owners over recent quarters is a positive indicator. It's important to recognize which institutions own a stock, as top-performing funds usually select stocks with strong potential. Ratings—such as the 36-Month Performance Rating found in *Investor's Business Daily*—help identify high-performing funds, crucial during both bullish and bearish markets.

Trends and Stock Selection:

The focus should be on stocks with increasing institutional interest, particularly those recently added to institutional portfolios, as such entities are likely to continue their investments. Detailed reports on these trends, although lagging in time, offer valuable insights for strategic decision-making, enabling investors to align with intelligent market moves.

Risks of Overownership:

While institutional backing is generally positive, excessive institutional ownership can be detrimental. If too many institutions hold a stock, any negative developments can trigger mass sell-offs, leading to drastic price drops. Historical instances like Citigroup during the 2008 financial crisis and other major companies demonstrate the dangers of overownership.

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chapter 9 Summary: M = Market Direction: How You Can Determine It

Chapter 9M, titled "Market Direction: How You Can Determine It," provides essential insights into analyzing the stock market's direction—a crucial aspect of successful investing. The chapter underscores that even the most accurate predictions about individual stocks can lead to losses if one misjudges the overall market trend, as seen during major downturns like those in 2000 and 2008. The author emphasizes the importance of having a reliable method to gauge whether the market is in a bull phase (characterized by rising prices) or a bear phase (characterized by declining prices).

Investors often lack a systematic approach to determining market direction, relying instead on advice from others who might not have a sound strategy themselves. This knowledge enables investors to discern whether they're witnessing a normal market dip or a signal of deeper issues. The chapter details a method developed years ago for tracking market trends through daily analyses of major market averages, such as the S&P 500, Nasdaq Composite, Dow Jones Industrial Average, and NYSE Composite.

Market timing is often dismissed as impossible, a myth perpetuated by those who failed at it or never attempted it. However, many investors have successfully used sound rules to exit the market before major declines, protecting their gains during prosperous periods. This argument is

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strengthened by historical examples, like Jack Dreyfus effectively managing his Dreyfus Fund during bear markets in the 1950s.

Mutual funds often remain fully invested due to institutional constraints, unlike individual investors who can raise cash quickly. Thus, understanding market cycles and patterns is key. Bear markets frequently end before business downturns do, with stocks anticipating economic shifts months in advance.

The chapter also examines the stock market cycle's stages, detailing how major shifts often mislead before a new trend sets in. Historical insights into events like the prolonged bear market of 1973-1974, with its severe 50% decline in the Dow, illustrate the need for vigilance and strategic exits to protect investments.

The author advises against relying solely on opinions of market experts or secondary indicators like the advance-decline line. The core message is to observe and analyze market averages and leading stocks directly for signs of shifts. By mastering this approach, investors can avoid unnecessary losses and capitalize on significant market movements.

The chapter concludes with a call to action for investors to educate themselves and take control of their financial futures. In the context of recent financial crises, the book offers a systematic approach with a historical

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perspective, empowering investors with the knowledge and tools to navigate the complexities of the stock market effectively. The reader is encouraged to internalize the CAN SLIM system, which aligns stock selection with market direction, to enhance both understanding and decision-making in investing.

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chapter 10 Summary: When You Must Sell and Cut Every Loss ... Without Exception

Chapter 10 of this text delves into one of the most crucial aspects of investing: knowing when to sell stocks and cut losses swiftly and efficiently to protect one's capital. This chapter emphasizes the principle that a strong defense in investing—meaning cutting losses quickly—is key to achieving substantial financial gains. The author uses a sports analogy to stress the importance of balancing offense (investment strategies) with defense (risk management), citing examples like the Brooklyn Dodgers whose success relied heavily on strong defensive play.

The wisdom of notable investors, such as Bernard Baruch, is shared to highlight the reality that even successful market operators make frequent mistakes. Baruch's strategy underscores that success in the stock market is not about being right all the time but about limiting losses when wrong. Emphasizing a disciplined approach, the text advocates for a steadfast adherence to a rule of cutting losses at 7% to 8%, providing a practical framework based on the effects of past market downturns.

Personal anecdotes are used extensively to illustrate these principles. For example, Marc Mandell's mantra of "lose small and win big" encapsulates the philosophy of minimizing losses to maximize gains. The text also recounts the story of a market dive in 1962, demonstrating how managing

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losses led to net gains despite a turbulent market.

The author advises readers to adopt a 3-to-1 profit-to-loss ratio, explaining that minor losses, if managed appropriately, act like insurance policies safeguarding against large potential setbacks. This involves recognizing the signs of bad investment decisions when stocks fall below their purchase price—and acting decisively.

Historical examples of renowned figures and companies, such as Thomas Edison, Babe Ruth, and iconic corporations like Microsoft and Amgen, serve to illustrate how trial and error, with an emphasis on limiting failures, can lead to epic successes.

Towards the end of the chapter, the narrative shifts to tackling common misconceptions among investors. These include denial of losses, emotional attachment to failing stocks, and the dangers of averaging down on stocks that are losing value. Real-life testimonials from Investor's Business Daily (IBD) subscribers validate the effectiveness of strict sell rules and taking disciplined action.

Ultimately, the text concludes with an analysis of investment strategies, pointing out that success derives from a blend of hard work, disciplined risk management, and the courage to make informed decisions without succumbing to emotional bias. Notably, it highlights the necessity of

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challenging traditional investor stereotypes—presenting a contrarian view where 'speculating,' or actively observing and acting based on market movements, is regarded as a more astute approach than passively holding on to investments.

This comprehensive chapter serves as a guide for investors to navigate the emotional and practical challenges of selling, reinforcing the notion that disciplined loss-cutting is the cornerstone of successful stock market investing.

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Critical Thinking

Key Point: The pivotal reality of cutting losses swiftly

Critical Interpretation: The essence of financial wisdom from Chapter 10 lies in mastering the art of selling stocks promptly when losses begin to materialize. This concept is brilliantly empowering, encouraging you to embrace a disciplined and tactical approach to investing. By swiftly cutting your losses at around 7% to 8%, you safeguard your capital against the turbulence of market unpredictability. This strategy serves not only as a financial cornerstone but also as a metaphorical guide for life's myriad challenges. Whether you are navigating investments or facing personal setbacks, the ability to let go and minimize losses can liberate you from prolonged stress and emotional drain. Such quick action fosters resilience, teaching you that setbacks are not a terminal defeat but rather a strategic opportunity to recalibrate and pivot toward more fruitful endeavors. By adopting this principle, you position yourself not as a casualty of circumstance, but as an adept navigator of life's ever-changing seas.

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chapter 11 Summary: When to Sell and Take Your Worthwhile Profits

Chapter 11 emphasizes a crucial aspect of investing that many investors overlook: knowing when to sell and take worthwhile profits. The chapter insists on the importance of selling stocks while they are still rising, even though it may contradict one's instincts to hold and hope for further gains. Selling at the right time prevents investors from suffering significant losses during inevitable market corrections.

Legendary financiers like Bernard Baruch, Nathan Rothschild, Joe Kennedy, and Gerald M. Loeb advocate selling stocks when they are still strong rather than waiting for a peak, as this strategy helped them preserve their fortunes. Selling should be grounded in strategy, not emotion, which often leads to greed and over-optimism, factors which can result in significant financial setbacks.

To succeed in the stock market, the author stresses the importance of creating a robust profit-and-loss plan paired with clear rules on when to buy and sell stocks. Historically successful methods include buying stocks when they reach new highs and selling them after they have achieved worthwhile gains. A remarkable discovery noted in the chapter is that leading stocks tend to rise 20% to 25% after breaking out from a proper base, after which they may decline again.

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The author shares his personal experiences and the lessons learned from both successes and failures, underscoring the importance of self-analysis and developing rules based on past mistakes. By meticulously reviewing and analyzing each transaction, the author was able to refine his strategy, resulting in improved future performance. This method proved its value during significant market downturns, such as the crashes of 2000 and 2008 when his rules preserved capital while many others suffered heavy losses.

Pyramiding, or averaging up, is another core strategy detailed in the chapter, where additional shares are bought as the stock's price increases, differing it from the common, yet risky practice of averaging down.

The chapter also describes technical sell signs such as recognizing climax tops, exhaustion gaps, breaking support levels, and changes in relative strength as indicators that a stock should be sold. Knowing when to hold a stock is equally important, particularly for stocks with substantial growth potential.

The author emphasizes an iterative process of continuous learning, adjustments, and disciplined adherence to rules to achieve investment success. This disciplined approach to selling, as much as buying, ensures that investors can maximize profits and minimize losses in the stock market over the long term.

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Critical Thinking

Key Point: Knowing when to sell stocks while they're still rising

Critical Interpretation: Imagine standing at the pinnacle of a mountain, gazing at the spectacular view—it's exhilarating, and you might be tempted to linger, hoping for more. Similarly, in the stock market, when you've made a substantial gain, your instincts might urge you to hold on tighter. Yet, understanding when to sell while stocks are still rising becomes your safety net against dramatic losses during inevitable downturns. Embrace the wisdom of legendary investors who advocate this strategy, not as a cautious retreat, but as a wise preparation for future climbs. Let go of the emotional attachments and recognize this crucial point as a disciplined strategy to secure your gains. By having a fortified profit-and-loss plan, you can navigate beyond the peaks, ensuring that your financial successes are not short-lived but enduring. As you absorb the lesson from this chapter, you become empowered to make bold yet prudent choices, securing your dreams and fortifying your financial future.

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chapter 12: Money Management: Should You Diversify, Invest for the Long Haul, Use Margin, Sell Short, or Buy Options, IPOs, Tax Shelters, Nasdag Stocks, Foreign Stocks, Bonds, or Other Assets?

In Chapter 12, the focus is on various strategies and instruments you can employ in your investment journey and provides guidance on navigating the complex financial landscape. The chapter emphasizes the importance of understanding your choices, and building a strategy that aligns with your knowledge and tolerance for risk.

Key Takeaways:

1. Portfolio Management and Diversification:

- There is a popular adage against putting all your eggs in one basket, suggesting diversification. However, it warns against overdiversification, using examples such as unsuccessful corporate conglomerates like Ling-Temco-Vought and failed diversification efforts like Mobil Oil's acquisition of Montgomery Ward.

- It emphasizes the power of concentrated portfolios over broad diversification. Investors are advised to focus on a limited number of well-researched and closely watched stocks.

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2. Investment Timing and Market Behavior:

- The importance of buying the right stock at the right time is highlighted, regardless of whether you're investing for the long haul or plan to sell based on market signals.

- Charts are vital tools for determining buy and sell signals and can reveal mistakes that might otherwise be overlooked.

3. Day Trading vs. Long-Term Investing:

- Day trading is discouraged due to its speculative nature and lack of sufficient profit potential when considering transaction fees and potential losses.

- Shorter-term swing trading with skill is mentioned as a more viable option compared to day trading.

4. Use of Margin:

- Novice investors are advised against using margin due to the high risks. Margin should only be considered by more experienced investors with a strong understanding of market dynamics and sound buy and sell rules.

- Using margin is particularly risky during market declines, which can amplify losses.

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5. Short Selling:

- Short selling involves selling borrowed stocks anticipating a price drop, and it is considerably riskier and more complex than buying stocks.
- Short selling is best done at the onset of market declines and requires impeccable timing and careful stock selection.

6. Options Trading:

- Options are high-risk instruments that should not be the go-to choice for most investors due to their speculative nature.
- For those considering options, it is crucial to limit exposure and apply rigorous selection and timing strategies, focusing on high-quality stocks.

7. Initial Public Offerings (IPOs) and Foreign Stocks:

- Caution is urged when investing in IPOs due to their speculative risk and the potential for initial surges followed by declines.
- Similarly, while foreign stocks can offer opportunities, they require a deep understanding of the respective markets and additional risk considerations.

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- Real estate is generally a sound long-term investment if approached with prudence, avoiding overextensions and high-risk financing.

- Other investment vehicles like commodities, futures, and precious metals have their place but demand specialized knowledge and inherent higher risks.

Conclusion:

The chapter advises investors to focus on a core strategy of high-quality, growth-oriented investments, whether in stocks, mutual funds, or real estate, emphasizing simplicity and sound knowledge as guiding principles. Given the complexity and variances in different financial instruments and markets, the focus remains on understanding what you invest in and tailoring an investment plan that aligns with your experience and risk appetite.

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chapter 13 Summary: Twenty-One Costly Common Mistakes Most Investors Make

In Chapter 13, the author unveils twenty-one prevalent mistakes made by investors, emphasizing the importance of recognizing and rectifying these errors to achieve success in the stock market. This chapter draws inspiration from Knute Rockne's philosophy of turning weaknesses into strengths, which applies broadly to investing, business, and personal life. A crucial theme is that mediocre results or losses in the stock market stem from unaddressed mistakes, rather than strengths.

The author argues that most investors, regardless of their experience levels, fail to conduct an honest assessment of their investment strategies or to learn from their errors. Key to overcoming these pitfalls is the willingness to unlearn ingrained bad habits and adapt better strategies. Past financial crises and high-profile financial deception cases, such as Bernie Madoff's Ponzi scheme, underscore the necessity for personal accountability in managing one's financial future.

The chapter meticulously catalogs typical investment mistakes:

1. **Holding onto Losses:** Investors often allow emotions to dictate decisions, leading them to retain depreciating stocks. The author advises adhering to a strict rule of selling stocks when they fall 7-8% below

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purchase price to mitigate losses.

2. **Buying Declining Stocks:** Perceived bargains can result in substantial losses, akin to "catching a falling dagger."

3. **Averaging Down:** Purchasing more of a declining stock in hopes of reducing costs can exacerbate losses.

4. **Ignoring Stock Charts:** Far from mere speculation, chart analysis can aid in identifying optimal buying opportunities during bullish trends.

5. **Poor Stock Selection:** Without clear criteria, investors often pick underperforming stocks or overly speculative, risky options.

6. **Lacking Market Rules:** Absence of rules leads to failure in anticipating market corrections or uptrends.

7. **Ignoring Buy/Sell Discipline:** Established rules are futile without disciplined implementation.

8. **Lack of Selling Strategies:** Investment success requires a plan for both buying and selling stocks effectively.

9. **Undervaluing Quality:** High-quality stocks with institutional backing

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offer improved potential.

10. Preference for Low-Priced Stocks: Attractive at face value, low-priced stocks often involve greater risk and are less institutionally favored.

11. Reliance on Tips: Investment decisions should be based on personal research rather than rumors or speculative advice.

12. Choosing Based on Dividends: Dividend yield and low P/E ratios are less crucial than a company's growth potential.

13. Desire for Quick Gain: Impatience and inadequate preparation often lead to hasty, regrettable decisions.

14. Familiarity Bias: Known household names aren't always sound investments; investors should research emerging companies.

15. Following Poor Advice: Bad advice can derail investments; informed decision-making is key.

16. Taking Quick Profits: A successful strategy involves cutting losses quickly and being patient with gains.

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17. **Overemphasis on Taxes/Commissions:** While significant, these should not overshadow the ultimate aim of net profit.

18. **Risky Speculation:** Options and futures carry high risk; prudent investments prioritize sustainable strategies.

19. **Quibbling Over Small Price Differences:** Limiting orders can prevent timely sales, resulting in avoidable losses.

20. **Indecisiveness:** Lack of a clear investment plan leads to uncertainty and missed opportunities.

21. **Subjectivity:** Objective analysis should guide decisions instead of personal biases or preferences.

The chapter concludes with reassurance that correcting these mistakes can lead to investment success. By strengthening weak points, as Rockne advised, investors can navigate the dynamic stock market with confidence, capitalizing on new opportunities presented by emerging companies.

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Critical Thinking

Key Point: Holding onto Losses

Critical Interpretation: In the stock market, emotions often drive investors to cling to depreciating stocks, hoping for a rebound that never comes. The chapter advises you to adopt a disciplined approach, such as setting a firm rule to sell any stock that drops 7-8% below its purchase price. This strategy prevents deeper losses and preserves your financial health. By embracing this mindset, you learn to make objective decisions and detach yourself from unhealthy emotional ties, inspiring you to apply a similar discipline across other aspects of life—whether letting go of unfulfilling relationships or moving on from career paths that no longer serve you. Ultimately, learning to release what's dragging you down can propel you towards new, more rewarding opportunities.

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chapter 14 Summary: More Models of Great Stock Market Winners

Chapter 14: More Models of Great Stock Market Winners

This chapter builds upon the investment strategies discussed throughout the book by delving deeper into the CAN SLIM system, a method praised for identifying some of the greatest stock market winners. The CAN SLIM system is an acronym representing key factors: Current earnings, Annual earnings, New products, Supply and demand, Leader or laggard, Institutional sponsorship, and Market direction. It's a systematic approach that has been proven to transform small investments into substantial returns, as demonstrated by numerous success stories featured in the book and through publications like Investor's Business Daily.

Tracing the Growth of a Small Account:

An illustrative example begins in 1961 when a Harvard Program for Management Development class created a fund with just \$850—\$10 shares contributed by each classmate. Managed by the chapter's author, this fund exemplifies how disciplined investing can yield impressive gains. Over 25 years, despite a challenging market in 1962 and periods of losses in 1969

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and 1974, the fund grew to \$51,653.34 by 1986. This success was achieved through strategic buy-sell decisions based on CAN SLIM principles, where even one or two stocks at a time, paired with timely actions, made significant impacts, echoing the system's emphasis on early recognition of stock patterns.

The narrative emphasizes lessons learned, such as the importance of selling stocks at the right time using the example of Dome Petroleum. Originally bought at \$77 and sold at \$98 before plummeting to below \$2, the stock's trajectory serves as a cautionary tale about the necessity of decisive action.

The U.S. Investing Championship:

Another anecdote features Lee Freestone, who exemplified CAN SLIM's efficacy during the 1991 U.S. Investing Championship. At just 24, he secured a 279% return, closely paralleling the success of another associate, David Ryan. They both corroborated real-world applicability through significant gains in subsequent years, underscoring that disciplined adherence to the system could yield consistent success.

More Examples of Great Winners to Guide You:

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To further elucidate CAN SLIM's effectiveness, the chapter introduces graphical models of stock market winners from 1952 to 2009. These models encapsulate price accumulation patterns preceding substantial market moves. By studying configurations such as the cup-with-handle, cup-without-handle, double-bottom, flat-base, and base-on-base patterns, investors can develop a keen eye for discerning promising opportunities.

Through these examples, the reader is urged to internalize the patterns and strategies that have guided many to financial success. By mastering the art of recognizing these patterns in real-time, one can emulate the achievements of past winners and potentially reap substantial rewards. The chapter is a testament to the CAN SLIM system's robustness and its potential to drastically transform financial futures.

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chapter 15 Summary: Picking the Best Market Themes, Sectors, and Industry Groups

Chapter 15: Choosing Market Themes, Sectors, and Industry Groups

In the world of stock investment, the performance of a stock is significantly influenced by its industry group. Studies suggest that 37% of a stock's movement is directly tied to its industry group, and an additional 12% is linked to its overall sector. This means that around half of a stock's dynamics are contingent on the strength of its respective group, highlighting the importance of considering a stock's industry before investing.

Understanding Market Classifications

The terms sector, industry group, and subgroup are fundamental in market analysis. A sector is a broad classification that includes various industries, such as finance or technology. An industry group is a more specific category within a sector, and a subgroup is even more specific, breaking down industry groups into finer components. For example, Viacom falls within the Leisure and Entertainment sector, the Media industry group, and the Radio/TV subgroup.

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Importance of Detailed Industry Grouping

Investor's Business Daily (IBD) organizes securities into 197 detailed industry groups, unlike other classifications, because not all stocks within a sector perform uniformly. Recognizing which subgroup within a sector is outperforming can distinguish between superior and mediocre investment results. For instance, the medical industry can be divided into subcategories like biotech and healthcare providers, each with different market dynamics.

Tracking and Ranking Industry Groups

IBD provides a daily ranking of industry groups based on their six-month price performance, aiding investors in identifying leading groups. Analysis shows stocks in the top industry groups tend to outperform those in lower-ranking groups. Tools like the Industry Group Relative Strength Rating and the "New Price Highs" list further assist in gauging market standings.

Data-Driven Insights

IBD offers extensive data on 2,500 leading stocks, including a composite

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ranking, earnings growth rating, and a relative price strength score. This detailed insight surpasses that provided by other publications and helps investors make informed decisions by highlighting stocks with superior performance metrics.

Historical Context and Future Trends

Historically, leading stocks within an industry group often signal significant market opportunities. For instance, during the 1971 building sector boom, investors benefited by targeting stocks within relevant subgroups, like home builders and suppliers, rather than legacy companies lagging behind. Similarly, during the computer boom of the late 1970s and 1980s, newer technological sectors outpaced traditional hardware manufacturers.

Adapting to Market Shifts

Market dynamics continuously evolve with new technological and economic trends. Past leaders, like America Online, were replaced by new players like Google in subsequent cycles. Investors should remain adaptable, seeking opportunities in emerging sectors such as telecommunications and biotechnology while understanding that the market typically shifts leadership with each new cycle.

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Observing Market Indicators

Tracking both Nasdaq and NYSE stocks together can uncover emerging industry leaders. Notable past trends include the rise of sectors like computers and software during bull markets. Meanwhile, fundamental changes in industries, like technological advancements or regulatory shifts, often spark new group movements, creating substantial opportunities for investors who can spot these trends early.

Understanding Defensive Movements

Defensive sectors, such as utilities and consumer staples, often gain popularity as investors anticipate market downturns. Observing shifts towards these sectors can act as a warning sign for potential market tops.

Concluding Insights

Sixty percent or more of significant market winners are part of industry group movements. Understanding and acting on these trends is critical for investors aiming to achieve financial success in the stock market. The

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data-driven approach and historical analysis provided by IBD equip investors with the tools needed to navigate the complexities of market cycles effectively.

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chapter 16: How I Use IBD to Find Potential Winning Stocks

Chapter 16: How I Use IBD to Find Potential Winning Stocks

The Genesis of Investor's Business Daily (IBD)

Investor's Business Daily (IBD) was launched in April 1984 by William O'Neil to democratize access to critical stock investment data traditionally monopolized by professional money managers. This initiative aimed to equip both amateur and professional investors with the comprehensive data necessary to identify potential winning stocks. William O'Neil + Co., known for its investing prowess since the early 1960s, pioneered the first computerized daily stock market database in the United States, leading to insights into how successful stocks behave before major price movements. IBD now serves as a pivotal information provider by prioritizing investing education over traditional newspaper functions.

IBD's Unique Approach

IBD distinguishes itself from other financial publications by providing

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timely and reliable data crucial for investment decision-making. It offers advanced tools and metrics for assessing stock potential, focusing on a database-driven model rather than individual opinions. A notable feature is the ability to search through over 10,000 publicly traded stocks using proprietary performance ratings and rankings, which streamline the selection process to identify the best investment opportunities.

IBD's Research Tools

IBD's unique ratings system lies at the heart of identifying potential winners before their price surges. The IBD SmartSelect® Corporate Ratings evaluate stocks on factors such as Earnings per Share (EPS) growth, Relative Price Strength (RS), sales, profit margins, and Return on Equity (SMR). These metrics allow investors to spot the best-performing stocks, often highlighting earnings growth and market performance as primary indicators of a company's potential.

Navigating IBD Features

IBD's stock tables differ considerably from standard tables, offering a comprehensive yet condensed summary of a stock's performance relative to others. Critical elements like EPS and RS ratings are rated on a scale from 1

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to 99, with higher scores indicating better performance. These ratings help investors differentiate leading stocks from those with poor management or lackluster growth prospects.

The Importance of Institutional Trading

Understanding professional trading influence is vital, and IBD's Accumulation/Distribution Rating assesses whether a stock is being bought or sold by institutions. These ratings, along with IBD's Volume Percent Change metric, provide insight into significant market movements and help investors discern emerging opportunities.

Educational and Practical Applications

IBD is more than just a news outlet; it's a platform for comprehensive investment education. Pages like "Leaders & Success" and "The New America" highlight inspiring stories and successful companies, while "Internet and Technology" keeps readers abreast of emerging trends. Meanwhile, the "Making Money" section offers actionable investment tips and strategies for readers to apply in real time.

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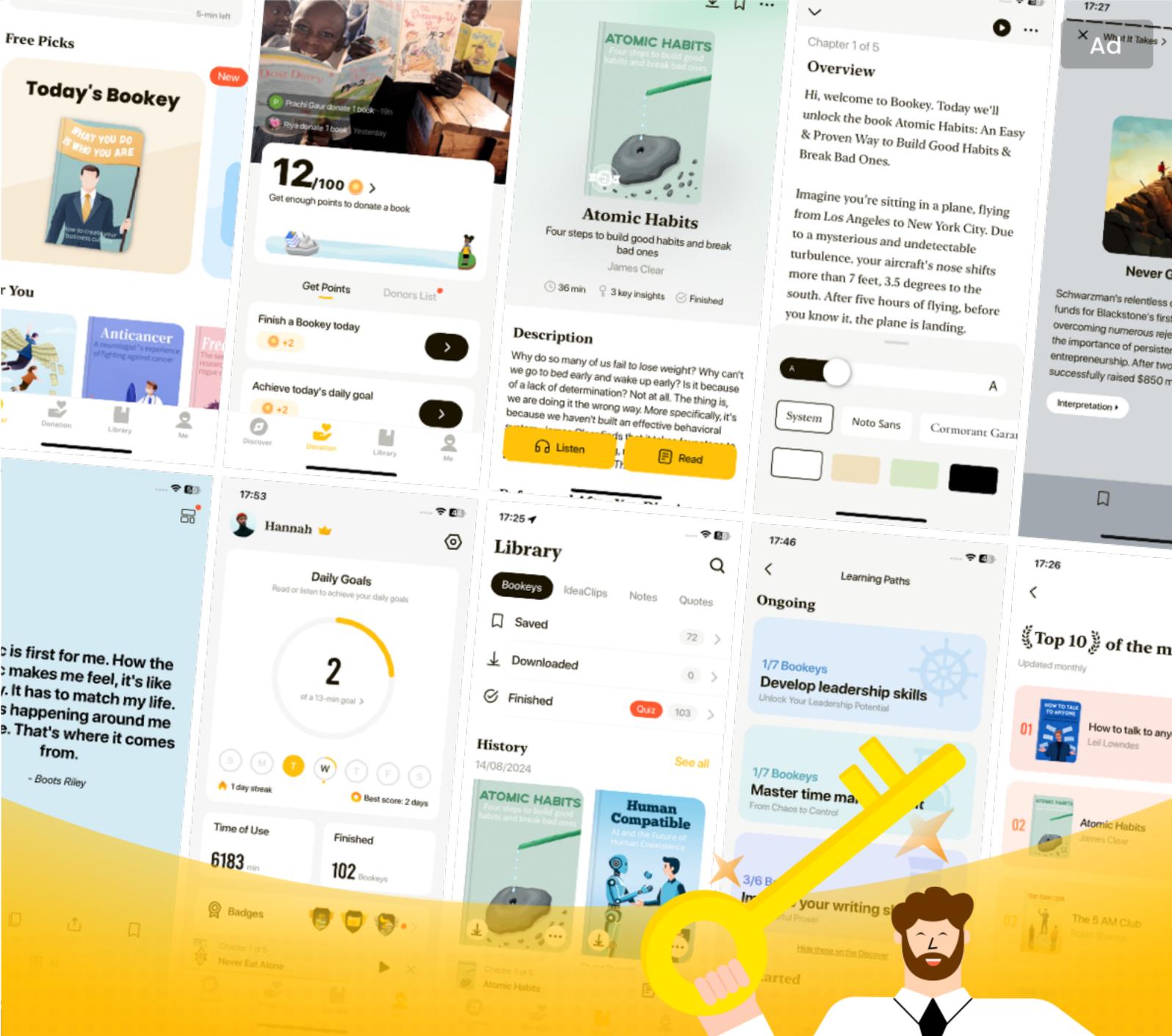
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Investors.com complements IBD's print edition with advanced tools and features that help investors follow market trends, evaluate stocks, and manage stock lists. The site provides a robust database for stock research,

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chapter 17 Summary: Watching the Market and Reacting to News

Chapter 17 of the text focuses on the emotional and strategic complexities of stock market trading and investment. It offers insights into the dangers of emotional trading while emphasizing the importance of discipline and strategy in making investment decisions.

Emotional Aspect of Tape Reading

Tape reading, whether through watching a ticker tape, sitting in front of a PC, or following market updates on TV, can lead to emotional decisions. Investors may become overly optimistic or pessimistic depending on stock performance, believing trends without caution. The chapter advises that when it seems everyone is clamoring to buy, discipline is critical because stocks might be reaching their peak.

Maintaining a Strategic Perspective

Successful trading requires maintaining perspective, discipline, and self-control. It's recommended to review weekly charts to determine if a stock is in a stable position or has been overextended beyond its buy point. Applying the CAN SLIM system—a market strategy based on current earnings, historical growth, and other criteria—can distinguish profitable

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opportunities from mediocre investments. Most stocks may not pass the CAN SLIM test, but this approach helps in identifying potential star performers.

Practical Investment Strategies

The chapter suggests regularly reviewing chart books and noting buy points for promising stocks. Investors should also track average daily volume to spot increases that signify demand. Maintaining a list of potential investments and watching market activity can help in making informed purchases at the right time.

Caution Against Tips and Rumors

Reliance on market tips, rumors, or insider information is discouraged as these are typically unreliable and can lead investors astray. Many advisory services and columns thrive on gossip and are considered unprofessional. Experienced investor Bernard Baruch's advice to separate facts from hearsay and avoid engaging with non-expert opinions, such as those from barbers or beauticians, is highlighted.

Market Distortion Factors

Investors should be wary of market distortions that often occur towards the

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year's end or during early January. These can result from option expiration dates or trades influenced by tax considerations, causing misinterpretations of market trends. Recognizing misleading patterns can help investors avoid making poor decisions during these periods.

Interpreting Market Reactions to News

An essential skill is interpreting how the market reacts to news, domestic or international. Sometimes the market's reaction—or lack thereof—can signal underlying strength or weakness, despite the news's apparent value. Historical instances, such as exaggerated forecasts or geopolitical crises, offer lessons on effective market reading.

Understanding the National News Media's Influence

The chapter analyzes how news media shape perceptions of the economy and markets. The presentation of news can significantly impact public opinion and market behavior, and biases within media outlets can alter these perceptions. Various studies and books, such as "The Media Elite" and works by Tim Groseclose, examine the extent of media bias and its detachment from public sentiment.

Historical Parallels and Lessons

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The chapter concludes with a historical analysis, comparing the Nasdaq's performance during the dot-com bubble with the Dow's performance leading to the Great Depression. Notably, the text highlights how market patterns are often driven by human emotions, reflecting on past periods of economic distress to offer insights for modern investors.

Overall, Chapter 17 emphasizes the importance of disciplined trading, skepticism of rumors, strategic analysis based on proven systems like CAN SLIM, and critical examination of media influence, providing a roadmap for navigating complex markets.

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chapter 18 Summary: How You Could Make Your Million Owning Mutual Funds

Chapter 18: How You Could Make Your Million Owning Mutual Funds

Understanding Mutual Funds

Mutual funds are professionally managed portfolios of stocks that investors can buy into. They offer diversification and are typically managed for a small fee. Unlike individual stocks, where a single decline can result in total loss, mutual funds, especially well-managed domestic growth-stock funds, tend to recover over time due to their broad diversification.

The Long-Term Path to Wealth

Mutual funds are ideal for long-term investment strategies, akin to holding real estate for appreciation. The key is patience and holding onto these investments through various market cycles, potentially over decades. A shrewd investor should focus on picking a high-performing diversified growth fund by using reliable sources for fund performance analysis, such as Investor's Business Daily, which rates funds based on their 36-month performance record.

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Leveraging Compounding

The magic of mutual funds lies in compounding, where your earnings generate additional earnings. Selecting a strong growth-stock fund and reinvesting dividends can lead to substantial wealth over time. For instance, a \$10,000 investment growing at 15% annually can exceed \$1 million over 35 years. Regular contributions during market downturns can enhance this growth significantly.

Timing and Diversification

Investing in mutual funds should start as soon as possible, without waiting for the perfect timing. Investors should focus on regular investments, gradually building capital that compounds. While multiple funds can provide diversification, it's crucial not to spread too thin. Diversification should include funds with various investment styles like value, aggressive growth, and large- or small-cap focus, within the same fund family for greater flexibility.

Managing Market Turbulence

Bear markets can be challenging, demanding resilience and long-term vision. Investors are encouraged to consider buying more shares when markets dip, benefiting from reduced prices. Historical data shows that even

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after severe downturns like the Great Depression, markets recover, emphasizing the importance of a long-term perspective.

Mutual Funds vs. Alternatives

- **Open-End vs. Closed-End Funds:** Open-end funds, which issue new shares and are redeemable at net asset value, generally present better long-term opportunities than closed-end funds.
- **Load vs. No-Load Funds:** Investors often prefer no-load funds to avoid sales commissions. However, some funds offer discounts or back-end loads to consider.
- **Sector and Index Funds:** Avoid sector funds due to their cyclical nature. Index funds, which track specific indices, can be more stable long-term investments.
- **Bond or Balanced Funds:** Stock funds typically outperform bond funds, though balanced funds may suit retirees desiring lower volatility.
- **Global or International Funds:** Limit exposure to high-risk international funds to about 10% of your portfolio, as regional markets often underperform the U.S.

Common Investor Pitfalls

Key mistakes include failing to maintain a long-term hold, being influenced by short-term market news, and engaging in frequent switching between

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funds. The American stock market has historically provided strong long-term returns despite economic downturns.

ETFs: An Alternative Investment Approach

Exchange-Traded Funds (ETFs) resemble mutual funds but trade like stocks with more flexibility and tax efficiency. ETFs allow exposure to diverse markets and assets, including commodities and currencies. They've become popular but require investors to manage their buy/sell decisions. While they offer diversification, their performance during downturns, such as the 2008 financial crisis, underscores the importance of careful selection.

In essence, mastering the use of mutual funds and ETFs can lead to substantial financial growth, but success hinges on strategic selection, patience, and a long-term investment horizon.

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chapter 19 Summary: Improving the Management of Pension and Institutional Portfolios

Chapter 19 focuses on improving the management of pension and institutional portfolios by examining the intricacies of professional money management and highlighting key insights from historical investment practices. The author, with extensive experience in managing individual accounts, pension funds, and mutual funds, underscores the significant influence institutional money managers have on market price movements. Institutional investors primarily use 100% cash for transactions, contrasting the speculative margin accounts of the public in 1929, which contributed to the market collapse.

The chapter also delves into the pivotal role of institutional money managers in today's cash-driven markets, arguing that while professional investors don't panic as easily as the general public, they are not immune to fear and poor decision-making influenced by market downturns, as seen from 1969 to 1975. Furthermore, the role of government policies in influencing market conditions is highlighted, particularly the subprime loan crisis.

A landmark product developed for institutional investors was the O'Neil Database Datagraph books, featuring detailed charts of publicly traded companies. These resources have since evolved into the advanced WONDA system (William O'Neil Direct Access), allowing institutional clients to

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directly access a vast database for real-time stock analysis. WONDA's technological advancements enable users to screen and monitor a plethora of stocks, offering comprehensive insights into market trends.

The chapter recounts case studies of successful investments in relatively unknown or undervalued companies, such as Dome Petroleum, Pic 'N' Save, and Tandy Corp., at times when traditional institutions overlooked these opportunities. The text asserts that these successes were predicated on recognizing potential before it became mainstream.

Further, the challenges of portfolio management are articulated, with emphasis on the pitfalls of focusing solely on large-cap companies. It argues for diversification and the inclusion of small- to mid-sized growth stocks, noting the successful rise of technological firms during the 1980s and 1990s due to favorable capital gains tax policies.

The conversation extends to the limitations of industry analyst systems and the pitfalls of following undervalued stock models. Many institutions rely on outdated methodologies that stifle performance. These include rigid adherence to the "prudent man" rule and other legally institutionalized concepts that emphasize valuation over market dynamics.

Moreover, attention is drawn to the often mediocre performance of industry analysts due to their focus on static value assessments rather than dynamic

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market conditions. This issue is exacerbated by systemic biases associated with investment banking relationships and a lack of emphasis on fresh, innovative stock ideas.

The chapter concludes by critiquing the practice of indexing and highlights the potential for selecting superior securities through disciplined research and an openness to reevaluate and adapt investment strategies. The author champions data-driven decision-making and suggests that both professional and individual investors can achieve improved outcomes through diligent study and flexibility in approach.

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Critical Thinking

Key Point: Embrace data-driven decision-making

Critical Interpretation: Immersing yourself in the world of investing, it's vital to adopt a mindset rooted in data-driven decision-making. As echoed in Chapter 19, this key principle can transform not only your investment strategy but also influence your broader life decisions. Just as professional money managers utilize comprehensive databases and advanced tools like the WONDA system to decode market trends, you too can leverage information and analytics to navigate complex life choices. It's about going beyond gut feelings and conventional wisdom — relying on thorough research, adaptive strategies, and continuously updated knowledge to guide you through life's financial uncertainties. Whether you're evaluating potential investments or making pivotal personal decisions, let the power of diligent research and adaptability be your compass towards success.

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chapter 20: Important Rules and Guidelines to Remember

Chapter 20 of the book provides a comprehensive guide to investing in the stock market, emphasizing the importance of strategic decision-making when selecting stocks. This chapter outlines numerous rules and guidelines for investors to follow to maximize their chances of financial success.

The chapter begins by cautioning against buying cheap stocks, suggesting instead that investors focus on established stocks within specific price ranges on the Nasdaq and NYSE. These stocks, priced typically between \$15 and \$300, are where most "super stocks" originate. The emphasis is on growth stocks that have demonstrated consistent earnings increases over the past three years, with expectations of continued growth through the next year.

Another critical factor is ensuring significant growth in earnings per share (EPS) in recent quarters, coupled with accelerated sales increases. The text recommends focusing on companies with a robust return on equity, ideally above 17%, and improving profit margins. Investors should seek stocks featured in leading industry sectors and disregard traditional metrics like dividend yields or low P/E ratios in favor of those excelling in earnings, sales growth, and market position.

Investment timing and stock selection are underscored, encouraging the use

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of chart analysis to identify suitable entry points. Investors are advised to "average up" instead of down, acknowledging their mistakes by cutting losses decisively at 7% or 8% below purchase prices.

In addition to individual stock analysis, the chapter advises on market

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