

Advanced CAN SLIM  
IBD Meet-Up Training Series  
Module-1

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At the end of the presentation series you will have been exposed to an advanced CANSLIM education

- You should understand the CANSLIM method, how to identify attractive buying opportunities and how to spot the correct entry point
- You will know how much you will buy, you will know when to add to your position to concentrate your portfolio
- You will know when to sell your stock
- You will be able to analyze the general market for tops and bottoms
- You will know how to analyze your own performance for additional rules to follow to avoid common mistakes
- You will be exposed to tools and techniques

## Module-1

Market Generalities

CANSLIM defined

Preferred stocks to buy

Cup and Double Bottom Bases

## Module-2

Bases continued

Base stage counting

Investor psychology

## Module-3

Market Tops and Bottoms

Buy rules

Managing the portfolio

## Module-4

Faulty Bases

Topping Patterns

Sell Rules

Tools and Routines

## Module-5

Short Selling

# What is the Stock Market?

- Some think the market is a casino
- The money system, the banking system and the stock market are the three major enablers that underpin our economy
- These enablers allow companies to efficiently trade goods and services and raise capital for expansion using stock primary offerings
- The secondary market that we participate in establishes the market price

# Who can be a Successful Investor?

- Anyone willing to put in hard work and who can follow simple rules
  - Trade in the direction of the overall trend
  - Buy low, sell high
  - Cut your losses short
  - Let your winners run
- Investing in stocks takes the same kind of preparation and training as for any successful endeavor
  - The market has trained professionals that are experienced in taking your money
  - Would you rent a set of clubs, hit a few and then play against Tiger Woods for money?
- To be successful you must learn the business of investing and have a plan
- The Smarter you are, the longer it takes...

# Where did CANSLIM come from?

- Years of research has uncovered the factors that exist prior to a major stock advance. W. J. O'Neil adapted techniques originated by and others, like...
  - Jessie Livermore
  - Nicolas Darvas
- These factors have been codified into a system of growth stock investing called CANSLIM.
  - CSCO posted EPS gains of 150% and 155% prior to its 1,467% run over the next three years
  - Dell Computer posted 74% and 108% in the two quarters prior to its 27 month increase of 1,789% from 1996
- The system couples superior company fundamentals with timing your buys with the general market as well as when stocks are moving into new high ground

# CANSLIM

- **C**urrent Quarterly Earnings growth of 25% or more for the last 2 quarters, prefer acceleration
- **A**nnual Earnings growth of at least 25% over the past 3-5 years
  - Sales growth quarter to quarter
  - Margins increasing quarter to quarter
  - Return on Equity (ROE) of at least 17%

# CANSLIM

- New Companies with New products
    - New services
    - New business conditions
    - New management
- Companies that are dramatically changing the way we
- Live
  - Work
  - Do Business

New Price Highs

*Studies show that new companies make their largest advance within 8 years from an IPO*



# CANSLIM

- **S**upply and Demand are demonstrated by huge volume increases over daily average on up days. *Demand/Supply = ADV/Float*
- **L**eader vs. Laggard-Look for top stocks both fundamentally and technically in the very best performing sectors and industry groups. Look for stocks with a high relative strength

# CANSLIM

- **I**nstitutional Sponsorship is demonstrated by BIG money. This can be seen from increasing number of institutions taking positions. Volume is a sign of institutional sponsorship. Buy higher volume stocks.
  - Question, how do you determine Institutional Sponsorship on an IPO?
- **M**arket Direction, 75% or all issues follow the general trend of the market  
Market-Index-Sector-Industry Group-Top Stocks

# Preferred Stocks to Own

- US Stocks, ADR's okay but not from countries where rule of law or transparency is in doubt (Venezuela, Russia?)
- IPOs and ADR's who are underwritten by one of the following underwriters:
  - Goldman, Lehman, JP Morgan, Morgan Stanley, Merrill
  - Credit Suisse for the Chinese IPOs, also Citibank.
- Minimum average daily volume 200K-400K-1M shares
- Minimum price \$15 (NYSE) \$20 (NASDAQ)
  - Lower priced stocks are especially suspect at the end of the cycle.
- Top notch fundamentals
  - Triple-digit EPS gains
  - 3 quarters of EPS acceleration
  - 3 Quarters of Sales acceleration
  - 3 Quarters of increased Intuitional Sponsorship
  - 3% Demand-Supply Ratio
- Satisfactory responses to the Three Questions:
  - Is this the very best stock I could own?
  - Where is the stock in the cycle? Where is the market in its cycle?
  - What do I think the stock pattern could be? Important for early entries.

# Primary Tools

- Investor's Business Daily
  - Most of your picks will be on the IBD-100 or IBD 85-85 list
- Daily Graphs
  - One-stop check on fundamentals and technical chart action
- Investors.com
  - Market Wrap daily video
  - Stock Check Up
  - Stocks on the Move
  - Wealth of educational material

Option On CB/AM/PAPH (w)  
 Short Interest 0.5 days - 33%

Market Capitalization \$44.89 Billion  
 Shares in Float 309.8 Million  
 Shares Outstanding 316.2 Million

Volume 40,174,000 \$142.00 +9.26  
 50-Day Avg Volume 5,360,800  
 Off 52-Week High -6.8%  
 52-Week Hi-Lo \$152.44-\$48.02

HEADQUARTERS: SASKATOON, SK PHONE: 306-933-8500

www.potashcorp.com

MANUFACTURES FERTILIZERS AND RELATED FEED PRODUCTS SOLD IN THE U.S., CANADA AND TRINIDAD.  
 01/25/08 Expects Q1 2008 earnings of \$1.30 to \$1.60 per share.

(N) IPO 11/2/1989

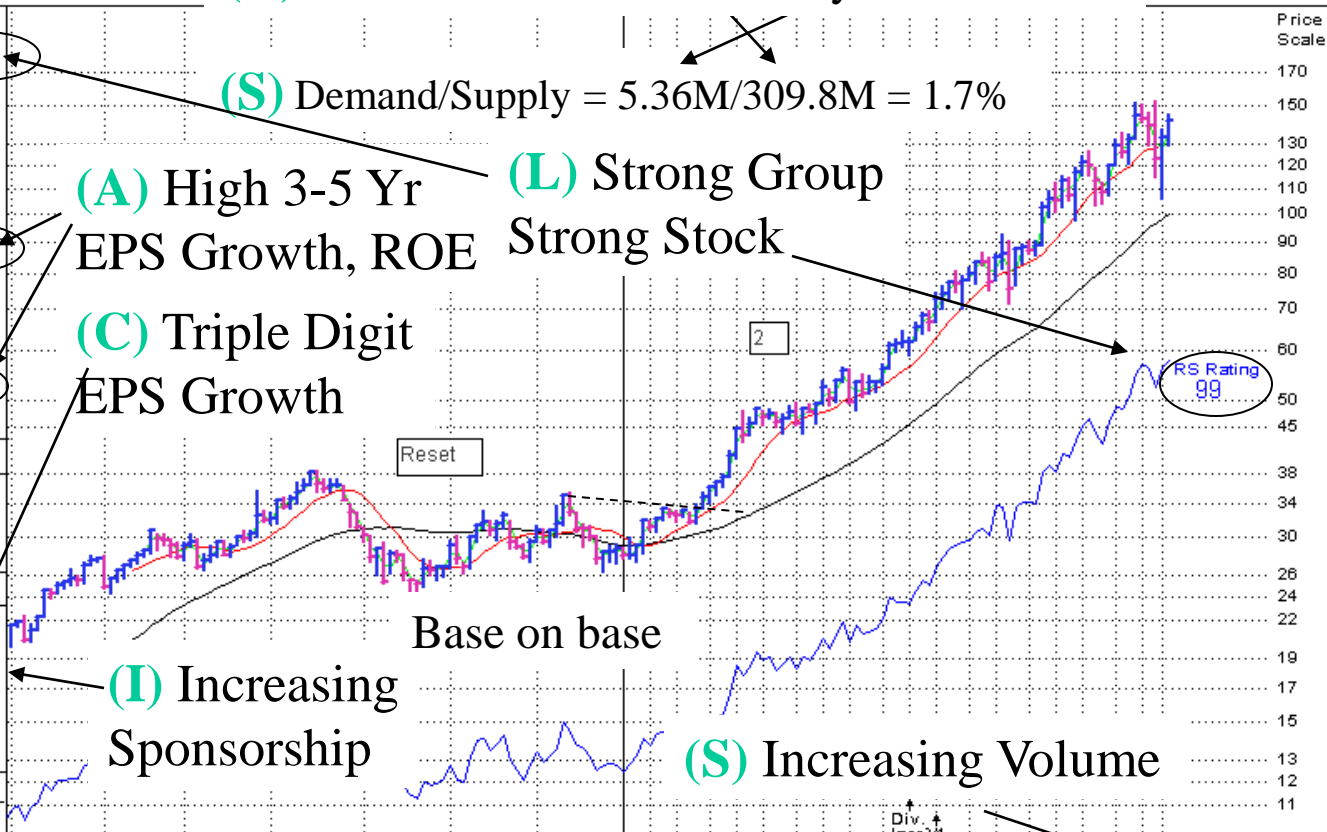
(N) Fertilizer business driven by Ethanol trend

Year (Dec)	EPS (\$)	Price (\$)	High	Low	EPS Rating	99
2001	0.38	13	8		Group RS Rating	99
2002	0.17	11	8		SMR Rating	A
2003	0.24	14	9		Acc/Dis Rating	C+
2004	0.80	28	12		Composite Rating	99
2005	1.63	38	24		Timeliness Rating	A
2006	1.80	49	26		Sponsorship Rating	B
2007	3.35	151	44		EPS Growth Rate	86%
2008	5.87	est. 75%			Earnings Stability	28
2009	6.90	est. 18%			P/E Ratio	42 (2.8 X SP)
Yield	0.3%				5-Year P/E Range	14-64
ExDiv	4/8/08				Return on Equity	[06: 23%]
Book Value	X16.01				Cash Flow	[06: \$2.60]
Inventory T/O	7.36X				Debt	49%
U/D Vol Ratio	1.0				Ownership	
New CEO	N/A				R & D	N/A
					Mgmt	2%
					Banks	5%
					Funds	34%
Top RS in Grp	Symbol	RS	EPS Rtg	No. of Funds		
CFInds	CF	99	97	Mar-07	223	
TerraNit	TNH	99	96	Jun-07	234	
Mosaic	MOS	99	94	Sep-07	250	
Terra Indus	TRA	99	74	Dec-07	264	
Agrium	AGU	98	95			

(S) Demand/Supply = 5.36M/309.8M = 1.7%

(A) High 3-5 Yr EPS Growth, ROE (L) Strong Group Strong Stock

(C) Triple Digit EPS Growth



(I) Increasing Sponsorship

(S) Increasing Volume

(C) Sales growth to match EPS growth

Quarterly	EPS(\$)	% Chg	Sales(\$Mil)	% Chg
Mar-06	0.38	0%	861.6	-6%
Jun-06	0.42	-14%	928.7	-12%
Sep-06	0.45	+15%	953.5	+2%
Dec-06	0.55	+53%	1022.9	+10%
Mar-07	0.62	+63%	1154.7	+34%
Jun-07	0.88	+110%	1353.1	+46%
Sep-07	0.75	+67%	1295.0	+36%
Dec-07*	1.11	+102%	1431.4	+40%

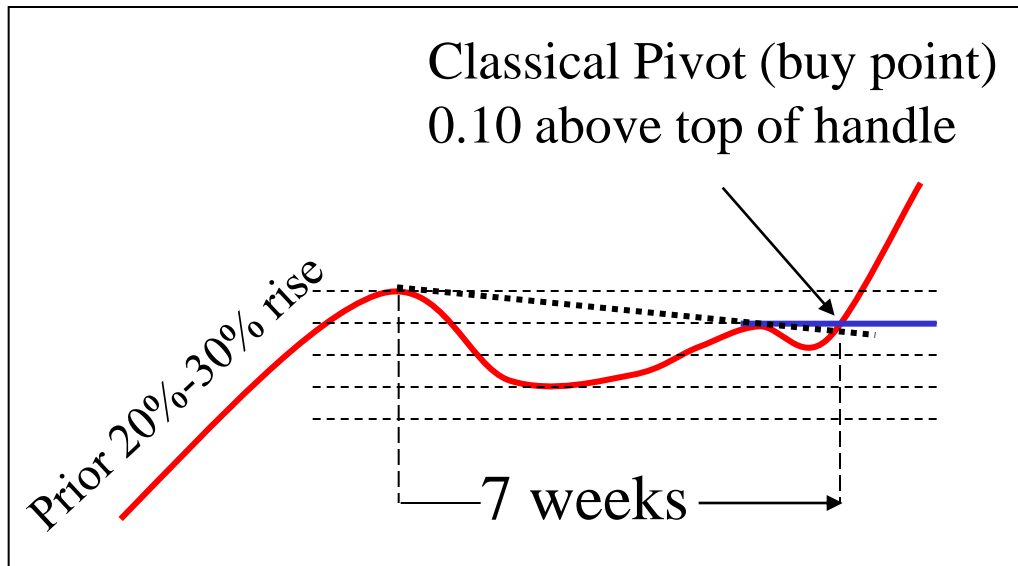
# When Do We Buy and Sell?

- After selecting a company with the best fundamentals we need to determine when it the best time to buy a stock
  - We trade in the direction of the general market
  - After clearing a sound price consolidation
  - Within 15% of a 52-week high
- We buy on fundamental and price and volume action, we sell on price and volume action only

# Bases

- After a stock moves up they typically consolidate (Base) for weeks before they make another move
- Base formations tend to shake out or wear out weak holders. We look for clues of reduced sellers as this enables a stock to continue an advance.
- Growth stocks typically form three or more bases before they top and move into decline
  - HANS went up six bases before topping in January 2006. Price expanded 1,522%, its P/E expanded 147%
- P/E expansion averages 130% from 1st pivot - top
  - Small Cap leaders (<\$3B) 142% over 52 weeks
  - Large Cap leaders (>\$3B) 98% over 117 weeks

# Cup and Handle Base



Most predominant pattern

Midpoint of handle

Should be above

Midpoint of base

Pivot should be within

15% previous high

- Base length at least 7 weeks long, can be one year or longer
- Maximum correction 30% (50% severe bear market)
- Handle at least one week, maximum 10-15% correction, 20% in bear market, if greater than one week, should decline along the bottoms
- Volume should dry up at bottom of base and also in handle
- Look for days of support and strength
- Cup should have rounded shape along bottom



Option On CB/AM/PA/PH © (w)  
 Short Interest 0.7 days - 20%

Market Capitalization \$57.48 Billion  
 Shares in Float 2011.8 Million  
 Shares Outstanding 2210.8 Million

50-Day Avg Volume 5,731,600  
 Off 52-Week High -19.0%  
 52-Week Hi-Lo \$32.08-\$15.94

HEADQUARTERS: SWITZERLAND, \_ PHONE:

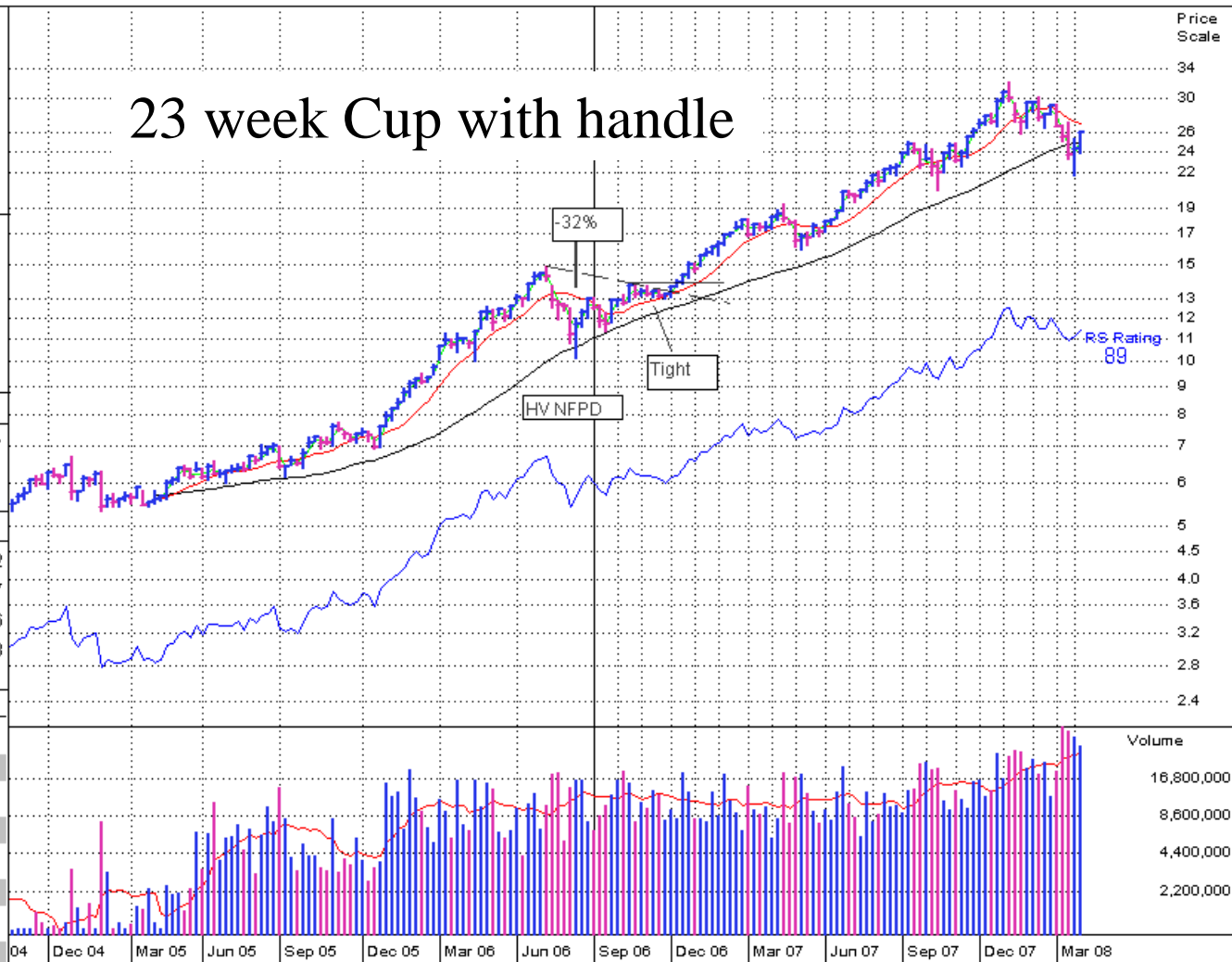
[www.abb.com](http://www.abb.com)

SWISS MANUFACTURER OF AUTOMATION AND POWER PRODUCTS/SYSTEMS USED IN INDUSTRIAL, COMMERCIAL, AND UTILITY PROCESSES.  
 11/19/07 Sold its Lummus Global unit to Chicago Bridge and Iron Co.

Year	EPS	Price (\$)	EPS Rating	99
(Dec)	(\$)	High Low	Group RS Rating	70
2000	0.74		SMR Rating	A
2001	-0.15	18 6	Acc/Dis Rating	E
2002	0.07	11 1	Composite Rating	90
2003	-0.30 ▲	6 1	Timeliness Rating	B
2004	0.20 ▲	6 4	Sponsorship Rating	C
2005	0.44 ▲	9 5	EPS Growth Rate	121%
2006	0.69	18 9	Earnings Stability	45
2007	1.24	est. 80%	P/E Ratio	23 (1.5 X SP)
2008	1.52	est. 23%	5-Year P/E Range	15-155
Yield		0.6%	Return on Equity	32%
ExDiv		5/3/07	Cash Flow	\$0.97
Book Value		X9.52	Debt	52%
Inventory T/O		7.09X	R & D	N/A
U/D Vol Ratio		0.9	Alpha	0.16
New CEO		N/A	Beta	1.36
			Ownership	
			Mgmt	N/A
			Banks	1%
			Funds	5%

Top RS in Grp	Symbol	RS	EPS Rtg	No. of Funds
HarbinElec	HRBN	98	96	Mar-07 82
EnerSys	ENS	96	95	Jun-07 97
AmSprcnd	AMSC	95	36	Sep-07 106
AZZ	AZZ	94	92	Dec-07 123
JinpanIntl	JST	91	94	

Quarterly	EPS(\$)	% Chg	Sales(\$Mil)	% Chg
Dec-05	0.14	+250%	5917.0	0%
Mar-06	0.13	+30%	5070.0	+6%
Jun-06	0.17	+70%	5641.0	-1%
Sep-06	0.18	+80%	5684.0	+1%
Dec-06	0.21	+50%	7188.0	+21%
Mar-07	0.23	+77%	6137.0	+21%
Jun-07	0.31	+82%	7143.0	+27%
Sep-07	0.32	+78%	7190.0	+26%



Option On CB/AM/PA/PH  
Short Interest 1.6 days + 15%

Market Capitalization \$15.20 Billion  
Shares in Float 114.9 Million  
Shares Outstanding 216.9 Million

50-Day Avg Volume 5,154,100  
Off 52-Week High -44.2%  
52-Week Hi-Lo \$125.68-\$48.80

HEADQUARTERS: CAYMAN ISLANDS, \_ PHONE:

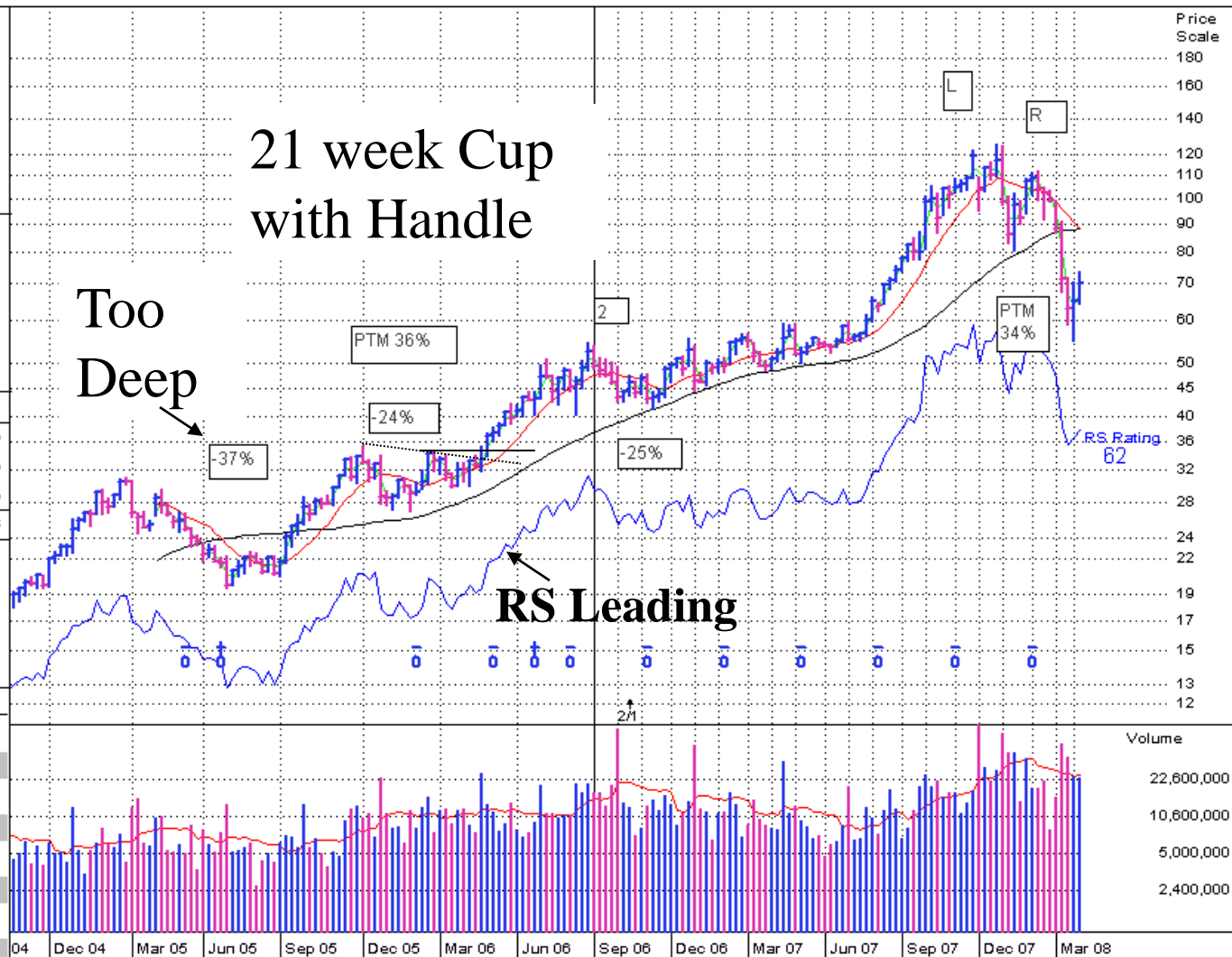
[www.garmin.com](http://www.garmin.com)

MANUFACTURES HAND-HELD, PORTABLE, AND FIXED-MOUNT GPS SYSTEMS FOR THE AUTOMOTIVE, OUTDOOR, AND AVIATION MARKETS.  
02/01/08 Unveiled its own smart phone called the nuvifone, which offers phone service, Web browsing and GPS service.

IPO 12/8/2000

Year (Dec)	EPS (\$)	Price (\$)	High	Low	EPS Rating	97
2000	0.52	11	7		Group RS Rating	32
2001	0.52	12	6		SMR Rating	A
2002	0.66	15	8		Acc/Dis Rating	D-
2003	0.82	28	13		Composite Rating	77
2004	0.94	31	14		Timeliness Rating	C
2005	1.43	35	19		Sponsorship Rating	B
2006	2.35	56	29		EPS Growth Rate	39%
2007	3.59	est. 53%			Earnings Stability	13
2008	4.39	est. 22%			P/E Ratio	22 (1.5 X SP)
Yield	1.1%				5-Year P/E Range	16-37
ExDiv	8/13/07				Return on Equity	38%
Book Value	X9.76				Cash Flow	\$2.59
Inventory T/O	7.54X				Debt	0%
U/D Vol Ratio	0.8				R & D	6.4%
New CEO	N/A				Alpha	0.21
					Beta	1.50
Ownership					Mgmt	47%
					Banks	5%
					Funds	20%

Quarterly	EPS(\$)	% Chg	Sales(\$Mil)	% Chg
Dec-05	0.40	+82%	319.3	+45%
Mar-06	0.40	+82%	322.3	+67%
Jun-06	0.56	+65%	432.5	+64%
Sep-06	0.56	+19%	408.0	+62%
Dec-06	0.82	+105%	611.2	+91%
Mar-07	0.64	+60%	492.2	+53%
Jun-07	0.98	+75%	742.5	+72%
Sep-07	0.88	+57%	728.7	+79%



Market Capitalization \$257.00 Million  
 Shares in Float 16.7 Million  
 Shares Outstanding 21.7 Million

Volume 508,000 \$11.87 -0.06  
 50-Day Avg Volume 230,100  
 Off 52-Week High -47.8%  
 52-Week Hi-Lo \$22.75-\$8.18

Option On CB/PA/PH  
 Short Interest 0.8 days + 67%

HEADQUARTERS: CHINA, \_ PHONE:

[www.3sbio.com](http://www.3sbio.com)

DEVELOPS GENETICALLY ENGINEERED, PROTEIN-BASED PRODUCTS FOR NEPHROLOGY, ONCOLOGY AND INFECTIOUS DISEASES.

02/01/08 No news available.

# Deep Cup

IPO 2/7/2007

Year (Dec)	EPS (\$)	Price (\$) High Low	EPS Rating	99	Price Scale
2000			Group RS Rating	92	
2001			SMR Rating	A	45
2002			Acc/Dis Rating	D-	38
2003	0.01		Composite Rating	89	34
2004	0.04		Timeliness Rating	C	30
2005	0.08		Sponsorship Rating	E	26
2006	0.18		EPS Growth Rate	94%	24
2007	0.53	est. 194%	Earnings Stability	22	22
2008	0.70	est. 32%	P/E Ratio	26 (1.7 X SP)	19
			5-Year P/E Range	19-75	17

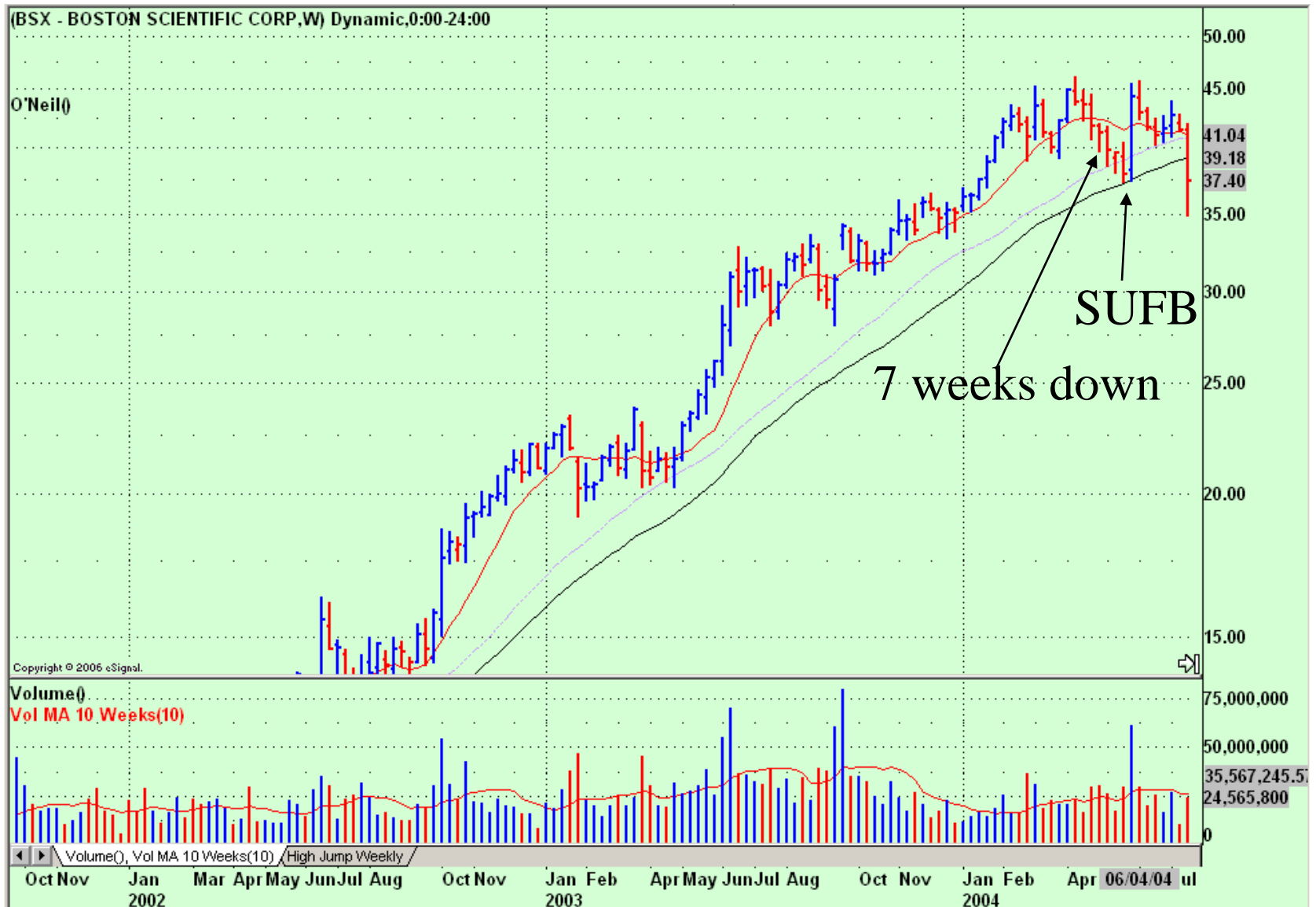
Yield	NONE	Return on Equity ['05: 49%]
ExDiv	N/A	Cash Flow ['05: N/A]
Book Value	X0.00	Debt N/A
Inventory T/O	N/A	R & D N/A
U/D Vol Ratio	1.0	Alpha 0.01
New CEO	N/A	Beta 0.76

Top RS in Grp	Symbol	RS	EPS Rtg	No. of Funds
Incyte	INCY	99	8	Mar-07 16
MillPharm	MLNM	97	52	Jun-07 14
Invitrogen	IVGN	90	90	Sep-07 16
SngmoBio	SGMO	88	8	Dec-07 16
MyriadGn	MYGN	71	39	

Quarterly	EPS(\$)	% Chg	Sales(\$Mil)	% Chg
Dec-05	0.02	+100%	3.2	+38%
Mar-06	0.04	+100%	3.5	+11%
Jun-06	0.04	+100%	3.6	+15%
Sep-06	0.06	+200%	4.5	+44%
Dec-06	0.04	+100%	4.5	+40%
Mar-07	0.10	+150%	4.6	+31%
Jun-07	0.14	+250%	5.7	+57%
Sep-07	0.15	+150%	7.5	+65%



# BSX Straight up from the Bottom



# Vee Shaped Faulty Cup

IXIA (XXIA) NASDAQ Internet-network Sltms

Market Capitalization \$504.00 Million  
 Shares in Float 61.8 Million  
 Shares Outstanding 68.7 Million

Option On CB/AM/PA/PH  
 Short Interest 11.6 days + 33%

HEADQUARTERS: CALABASAS, CA PHONE: 818-871-1800

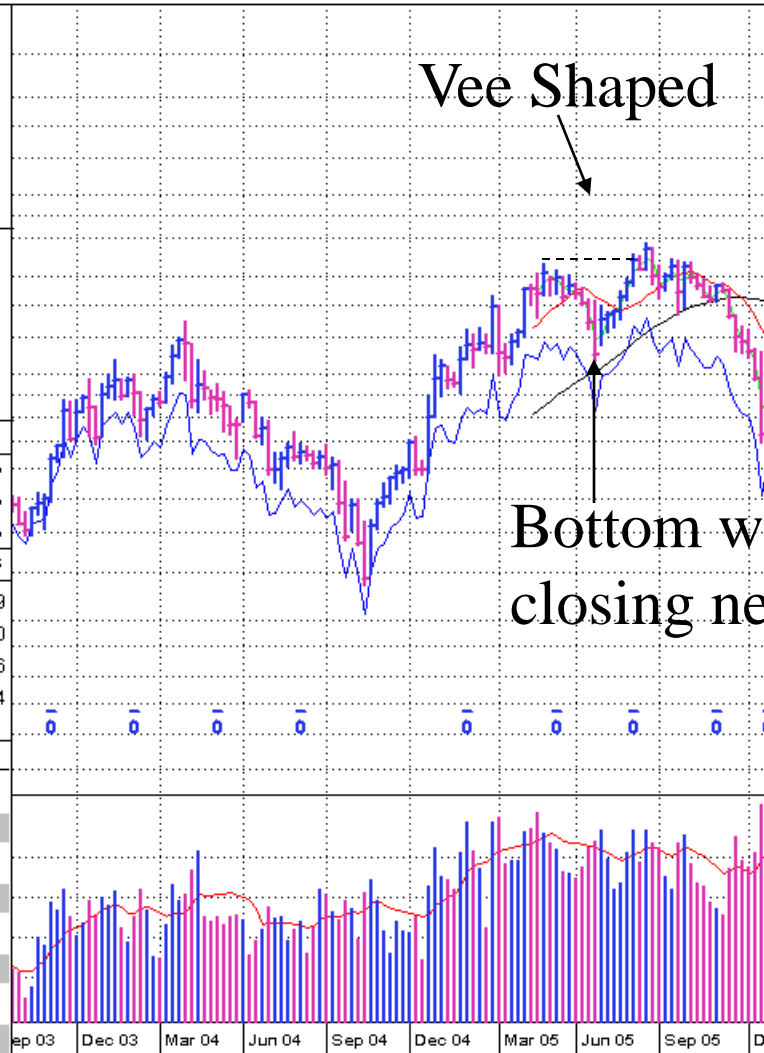
MANUFACTURES ETHERNET INTERFACE CARDS THAT TEST PERFORMANCE AND FUNCTIONALITY OF NETWORK EQUIPMENT AND APP  
 09/04/07 Named Atul Bhatnagar Pres and COO.

Year (Dec)	EPS (\$)	Price (\$) High Low	EPS Rating	37
2001	0.31	39 4	Group RS Rating	3
2002	0.17	14 1	SMR Rating	C
2003	0.19	13 3	Acc/Dis Rating	C
2004	0.32	17 5	Composite Rating	11
2005	0.43	21 9	Timeliness Rating	E
2006	0.46	15 7	Sponsorship Rating	D
2007	0.32	12 8	EPS Growth Rate	22%
2008	0.42	est. 31% ▲	Earnings Stability	23
2009	0.50	est. 19% ▲	P/E Ratio	21 (1.4 X SP)
			5-Year P/E Range	17-75

Yield	NONE	Return on Equity ['06: 11%]
ExDiv	N/A	Cash Flow ['06: \$0.71]
Book Value	X1.68	Debt 0%
Inventory T/O	16.80X	R & D 24.1%
U/D Vol Ratio	1.0	Alpha -0.10
New CEO	N/A	Beta 1.08
		Ownership
		Mgmt 10%
		Banks 13%
		Funds 13%

Top RS in Grp	Symbol	RS	EPS Rtg	No. of Funds
Q 9 Networks I	5Q	46	6	Mar-07 59
AkamaiTch	AKAM	31	98	Jun-07 60
Equinix	EQIX	22	74	Sep-07 56
Keynote	KEYN	20	74	Dec-07 64
iMergent	IIG	16	12	

Quarterly	EPS(\$)	% Chg	Sales(\$Mil)	% Chg
Mar-06	0.06	-45%	37.1	+2%
Jun-06	0.07	-42%	40.5	+4%
Sep-06	0.21	+75%	55.2	+38%
Dec-06	0.13	+117%	47.4	+33%
Mar-07	0.05	-17%	40.7	+10%
Jun-07	0.08	+14%	43.0	+6%
Sep-07	0.08	-62%	44.0	-20%
Dec-07*	0.11	-15%	46.4	-2%



Option On CB/AM/PA/PH  
Short Interest

Market Capitalization  
Shares in Float :  
Shares Outstanding :

HEADQUARTERS: SUNNYVALE, CA PHONE: 408-737-7600

MANUFACTURES ANALOG/MIXED-SIGNAL ICS USED IN THE AUTOMOTIVE, COMMUNICATIONS, CONSUMER ELECTRONICS, AND 01/18/08 To restate financial reports for 1997 through 2005 to record additional compensation expenses of \$360 to \$425 mil.

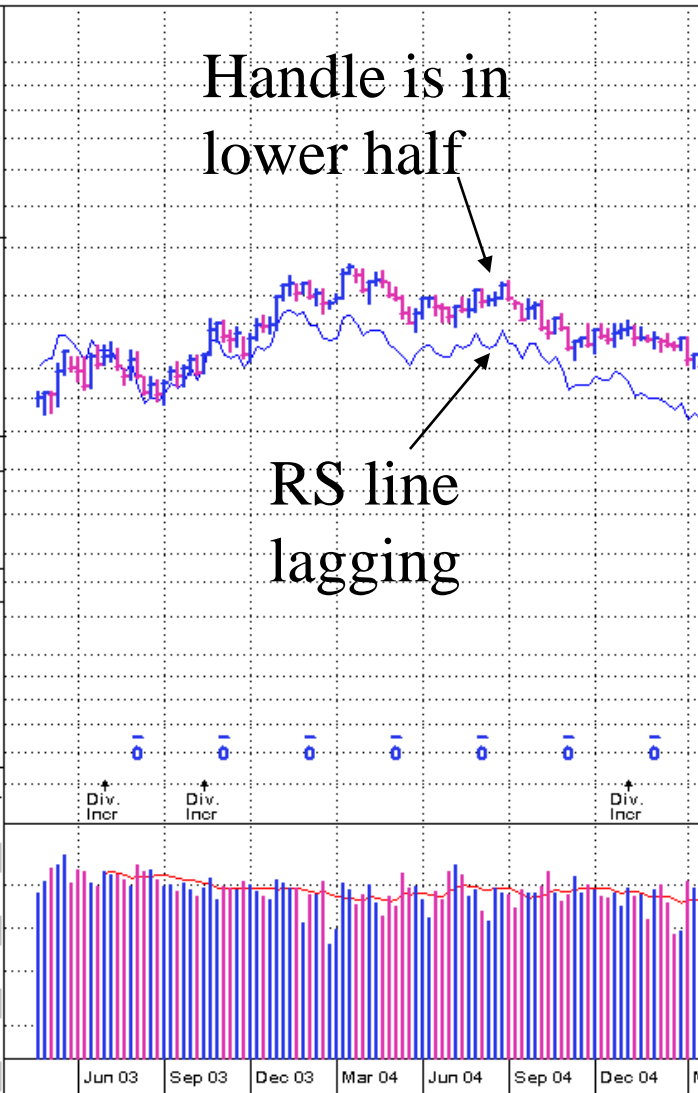
# Low Handle Faulty Cup and Handle

Year	EPS	Price (\$)	EPS Rating	
(Jun)	(\$)	High Low	Group RS Rating	
2000	1.04	90 41	SMR Rating	3
2001	1.20	70 32	Acc/Dis Rating	35
2002	0.73	61 20	Composite Rating	C
2003	0.91	53 28	Timeliness Rating	D-
2004	1.20	56 39	Sponsorship Rating	4
2005	1.58	45 33	EPS Growth Rate	D
2006	1.72	42 26	Earnings Stability	C
2007	1.19	est. -30% ▼	P/E Ratio	19%
2008	1.10	est. -7% ▼	5-Year P/E Range	13 (0.9 X SP)

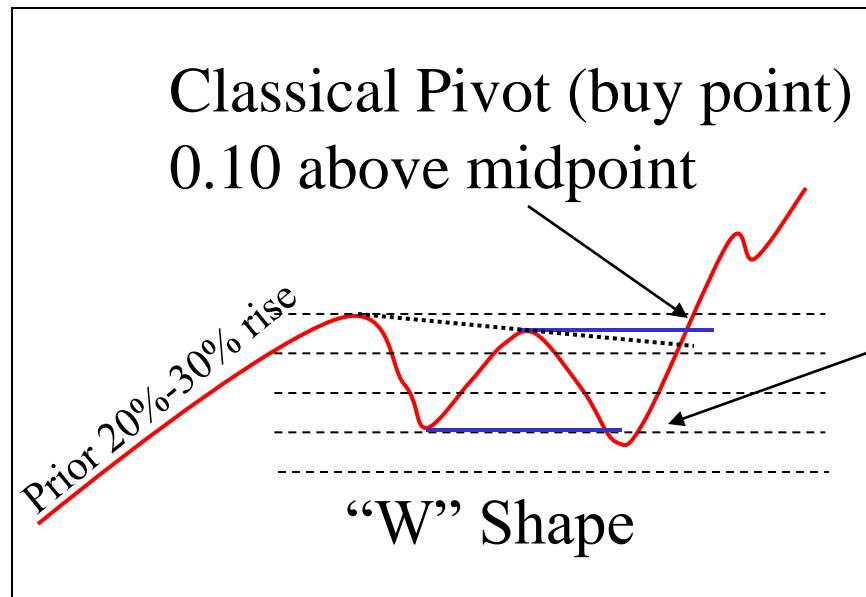
Yield	4.0%	Return on Equity	22%
ExDiv	8/21/07	Cash Flow	N/A
Book Value	X2.30	Debt	0%
Inventory T/O	11.71X	R & D	19.6%
U/D Vol Ratio	0.8	Alpha	-0.16
New CEO	1/2007	Beta	0.81
		Ownership	
		Mgmt	4%
		Banks	10%
		Funds	45%

Top RS in Grp	Symbol	RS	EPS Rtg	No. of Funds
Cree	CREE	98	52	Mar-07 330
RubiconT n	RBCN	98	28	Jun-07 355
PericmSem	PSEM	93	99	Sep-07 308
SigmaDsgn	SIGM	92	74	Dec-07 280
Trnsmta hrs	TMTA	92	18	

Quarterly	EPS(\$)	% Chg	Sales(\$Mil)	% Chg
Mar-05	0.37	+19%	400.2	+8%
Jun-05	0.37	+3%	400.4	-5%
Sep-05	0.39	-7%	424.4	-2%
Dec-05	0.42	0%	445.9	+2%
Mar-06	0.45	+22%	478.1	+19%
Jun-06	0.48	+30%	510.6	+28%
Sep-06	0.43	+10%	502.8	+18%
Dec-06				



# Double Bottom Base



Midpoint must be below and within 15% of prior high

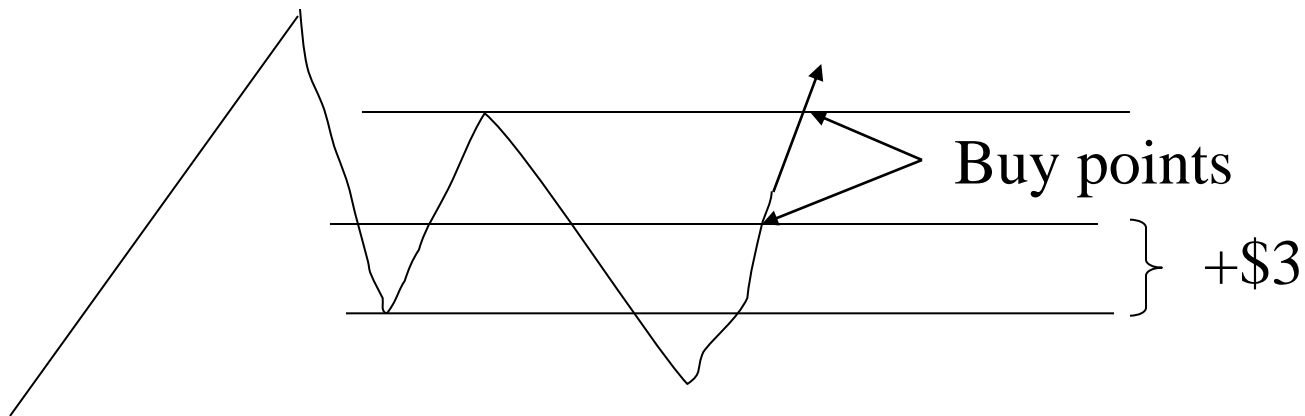
Second low must undercut prior low

Severe undercuts not good

Symmetry is good

- Base should be at least 7 weeks long or longer
- Maximum correction 30% (50% bear market)
- Movements more severe than cup and handle
- Handle may form, buy off of handle + 0.10
- Look for days of support and strength

# Additional Buy Point Shakeout + 3



O'Neil technique learned from Jessie Livermore

Shake out + \$3 can be used as initial buy point, price \$20-\$30

Use +13% to 14% for other ranges



Option On CB/AM/PA/PH ©  
Short Interest 2.7 days + 4%

Market Capitalization \$13.35 Billion  
Shares in Float 57.2 Million  
Shares Outstanding 114.3 Million

50-Day Avg Volume 2,045,900  
Off 52-Week High -33.7%  
52-Week Hi-Lo \$176.14-\$85.53

HEADQUARTERS: LAS VEGAS, NV PHONE: 702-770-7555

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OPERATES THE WYNN LAS VEGAS AND WYNN MACAU RESORTS WITH 388 TABLE GAMES, 2,451 SLOT MACHINES AND 2,716 ROOMS.  
06/21/07 Entered into a \$1 bil credit facility and will use proceeds for an equity repurchase program.

IPO 10/25/2002

Year (Dec)	EPS (\$)	Price (\$) High Low	EPS Rating	99
			Group RS Rating	50
2000			SMR Rating	B
2001	-0.45		Acc/Dis Rating	C
2002	-0.68	13 10	Composite Rating	84
2003	-0.50	26 11	Timeliness Rating	C
2004	0.01	68 25	Sponsorship Rating	C
2005	0.20	71 39	EPS Growth Rate	452%
2006	0.47	98 49	Earnings Stability	99
2007	2.81	est.498%	P/E Ratio	41 (2.7 X SP)
2008	3.12	est. 11%	5-Year P/E Range	31-999
Yield	NONE		Return on Equity	3%
ExDiv	11/28/07		Cash Flow	\$2.46
Book Value	X8.12		Debt 145%	Ownership
Inventory T/O	27.48X		R & D N/A	Mgmt 50%
U/D Vol Ratio	0.8		Alpha 0.07	Banks 7%
New CEO	N/A		Beta 1.33	Funds 42%
Top RS in Grp	Symbol	RS	EPS Rtg	No. of Funds
BallyTech	BYI	99	74	Mar-07 169
WMSInds	WMS	96	95	Jun-07 164
IntlGame	IGT	84	59	Sep-07 159
ChrchiD	CHDN	83	15	Dec-07 170
Great Canada	5GC	80	48	

Quarterly	EPS(\$)	% Chg	Sales(\$Mil)	% Chg
Dec-05	0.08	+167%	269.4	
Mar-06	0.03	+200%	277.2	
Jun-06	-0.05	N/A	273.4	+36%
Sep-06	-0.01	N/A	318.1	+27%
Dec-06	0.53	+563%	563.6	+109%
Mar-07	0.67	+999%	635.3	+129%
Jun-07	0.92	#+999%	687.5	+152%
Sep-07	0.67	#+999%	653.4	+105%



Price Scale

# WYNN Daily Chart

150

100

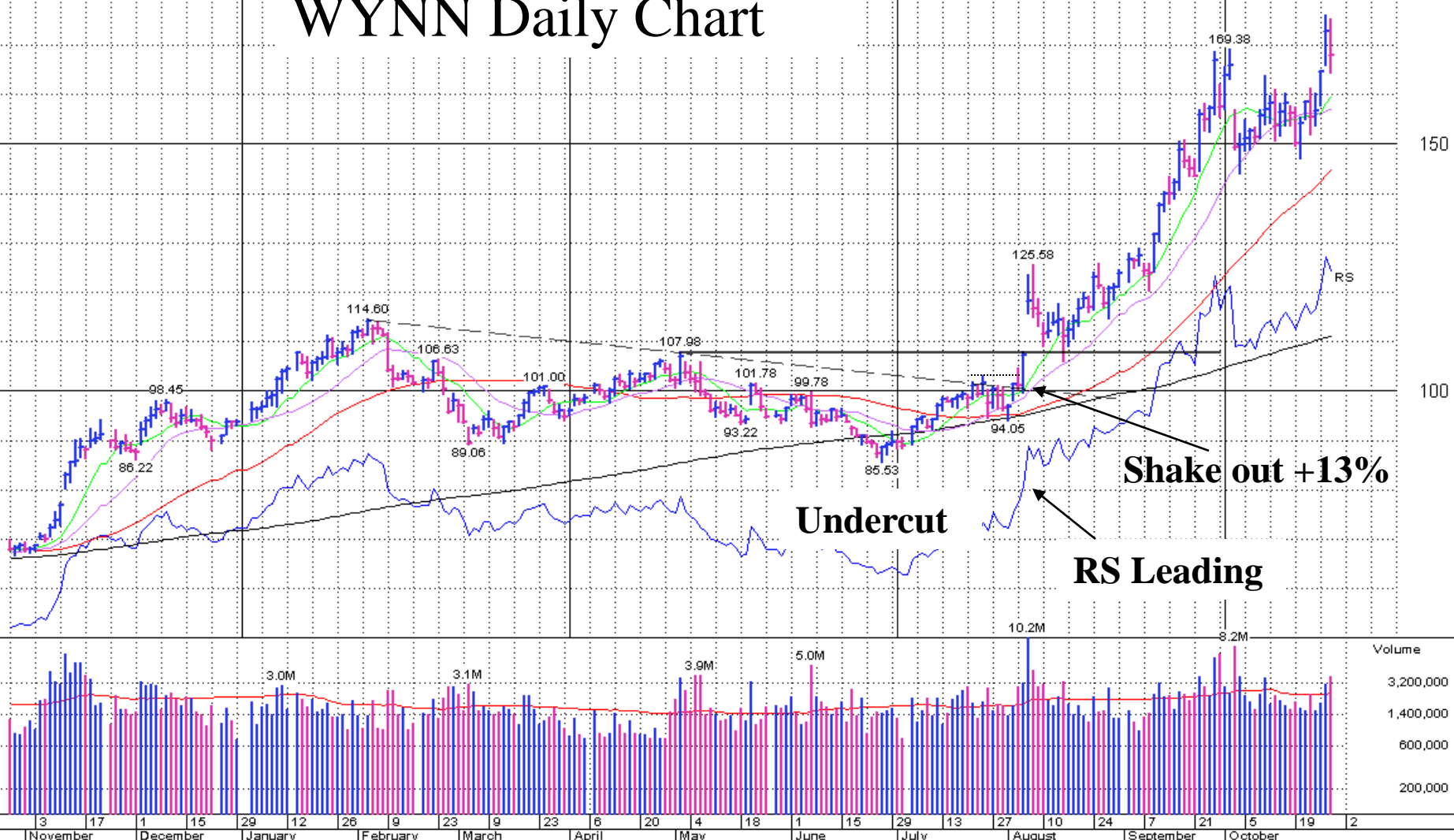
Volume

3,200,000

1,400,000

600,000

200,000



Option On NONE  
 Short Interest 2.4 days + 93%

Market Capitalization \$500.00 Million  
 Shares in Float 16.7 Million  
 Shares Outstanding 30.9 Million

50-Day Avg Volume 299,200  
 Off 52-Week High -34.8%  
 52-Week Hi-Lo \$24.85-\$12.10

HEADQUARTERS: SANTA CLARA, CA PHONE: 408-970-3400

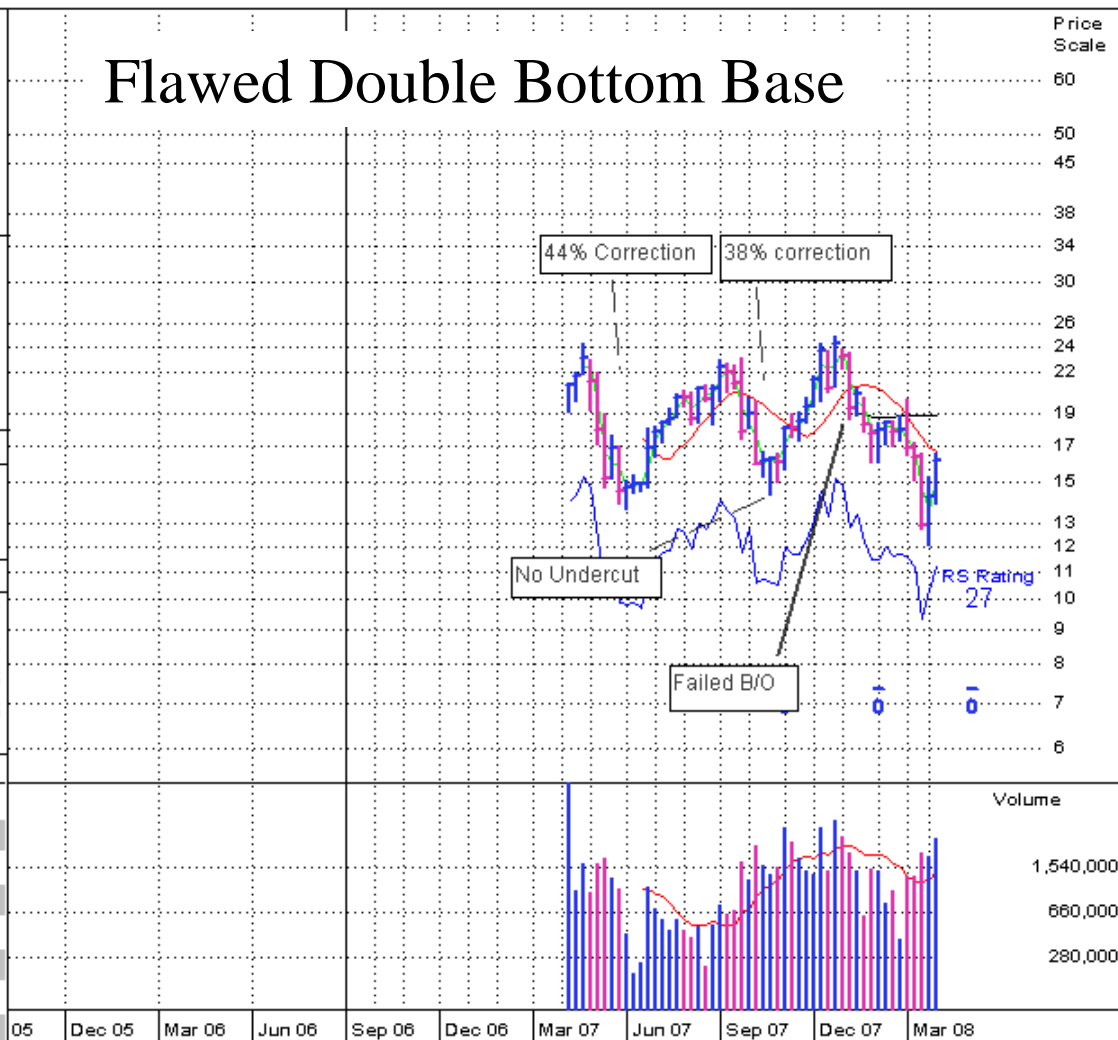
[www.mellanox.com](http://www.mellanox.com)

DESIGNS ADAPTER CARDS/ICS AND SWITCHES USED IN STORAGE, SERVERS, COMMUNICATIONS INFRASTRUCTURE, AND EMBEDDED SYSTEMS.  
 02/01/08 No news available.

IPO 2/8/2007

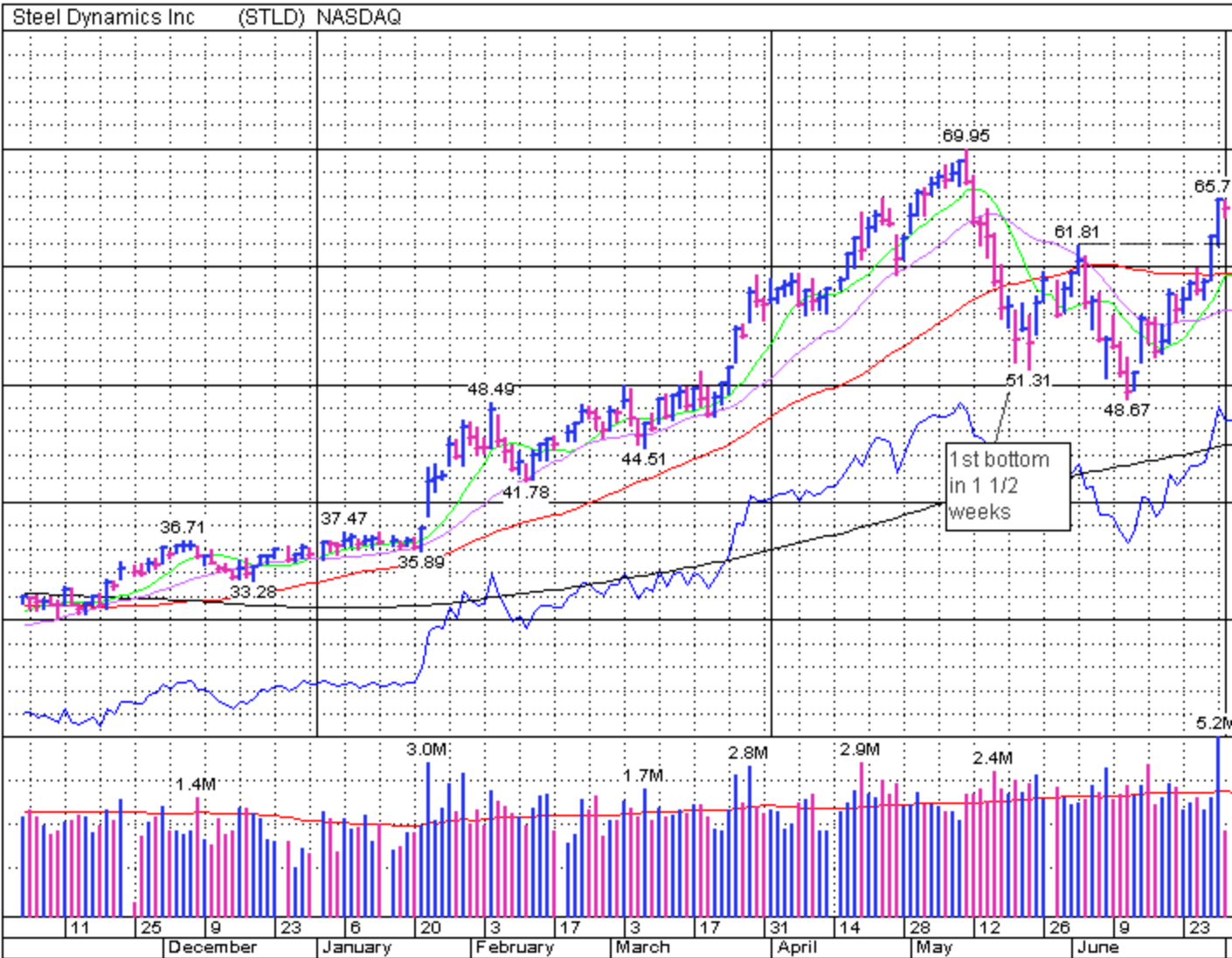
Year (Dec)	EPS (\$)	Price (\$) High Low	EPS Rating	74
2001	-0.68		Group RS Rating	39
2002	-0.66		SMR Rating	N/A
2003	-0.50		Acc/Dis Rating	B-
2004	-0.28		Composite Rating	41
2005	0.10		Timeliness Rating	C
2006	0.25		Sponsorship Rating	C
2007	0.80	24 13	EPS Growth Rate	N/A
2008	0.97	est. 21%	Earnings Stability	N/A
2009	1.14	est. 18%	P/E Ratio	20 (1.3 X SP)
Yield	NONE		5-Year P/E Range	14-67
ExDiv	N/A		Return on Equity [06: N/A]	
Book Value	X-7.70		Cash Flow [06: N/A]	
Inventory T/O	11.97X		Debt N/A	Ownership
U/D Vol Ratio	0.9		R & D 31.4%	Mgmt 37%
New CEO	N/A		Alpha	Banks 3%
			Beta 1.33	Funds 37%
Top RS in Grp	Symbol	RS	EPS Rtg	No. of Funds
SigmaDsgn	SIGM	97	74	Mar-07 17
Cree	CREE	97	52	Jun-07 14
RubiconT n	RBCN	97	28	Sep-07 26
PericmSem	PSEM	93	99	Dec-07 35
Rambus	RMBS	90	33	

# Flawed Double Bottom Base

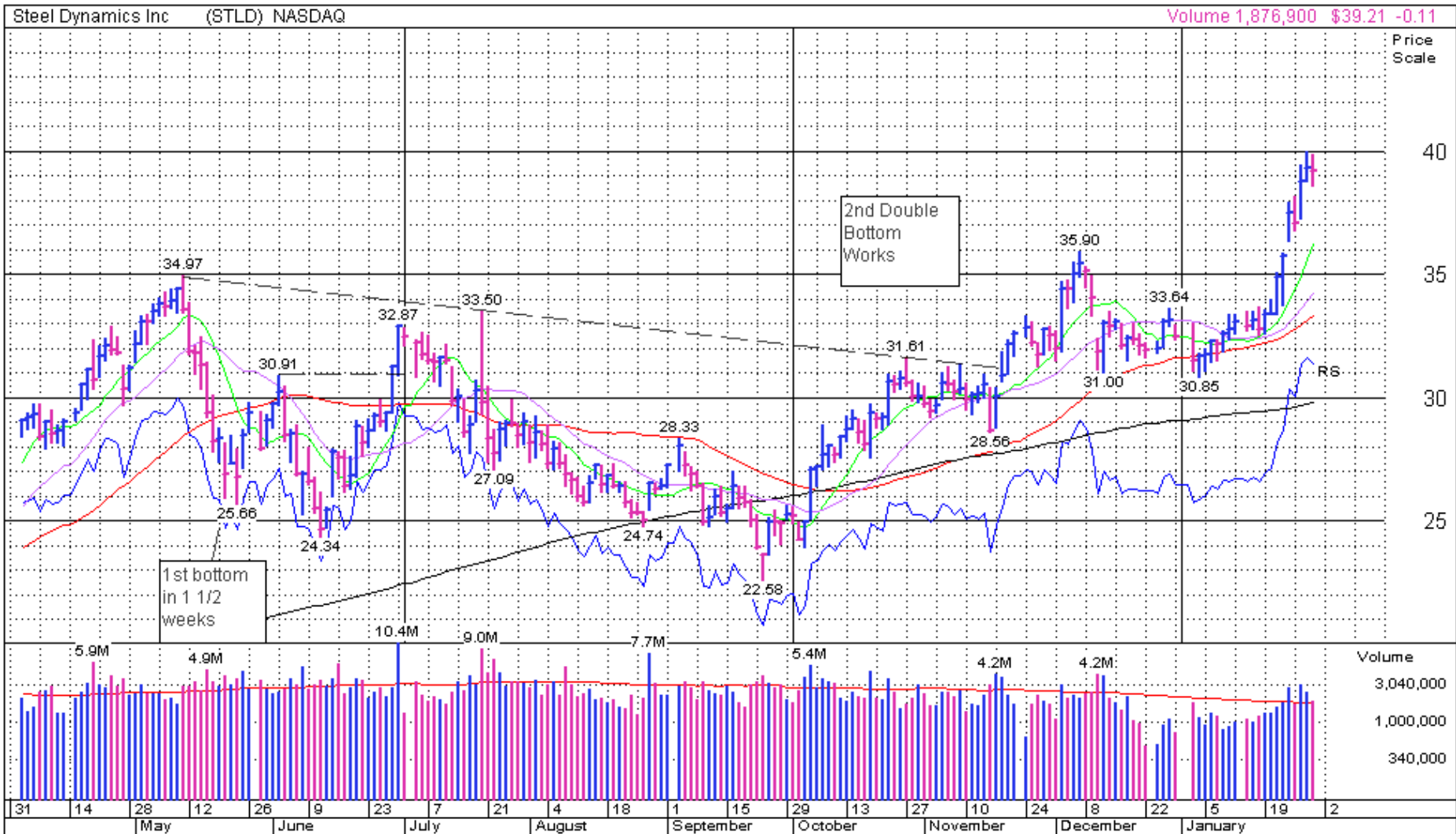


Quarterly	EPS(\$)	% Chg	Sales(\$Mil)	% Chg
Mar-06	-0.01	N/A	8.5	+11%
Jun-06	0.02	0%	10.8	+8%
Sep-06	0.09	+29%	13.4	+10%
Dec-06	0.13	+225%	15.8	+30%
Mar-07	0.12	#+999%	16.9	+98%
Jun-07	0.19	+850%	19.8	+83%
Sep-07	0.24	+167%	22.7	+69%
Dec-07*	0.26	+100%	24.8	+57%

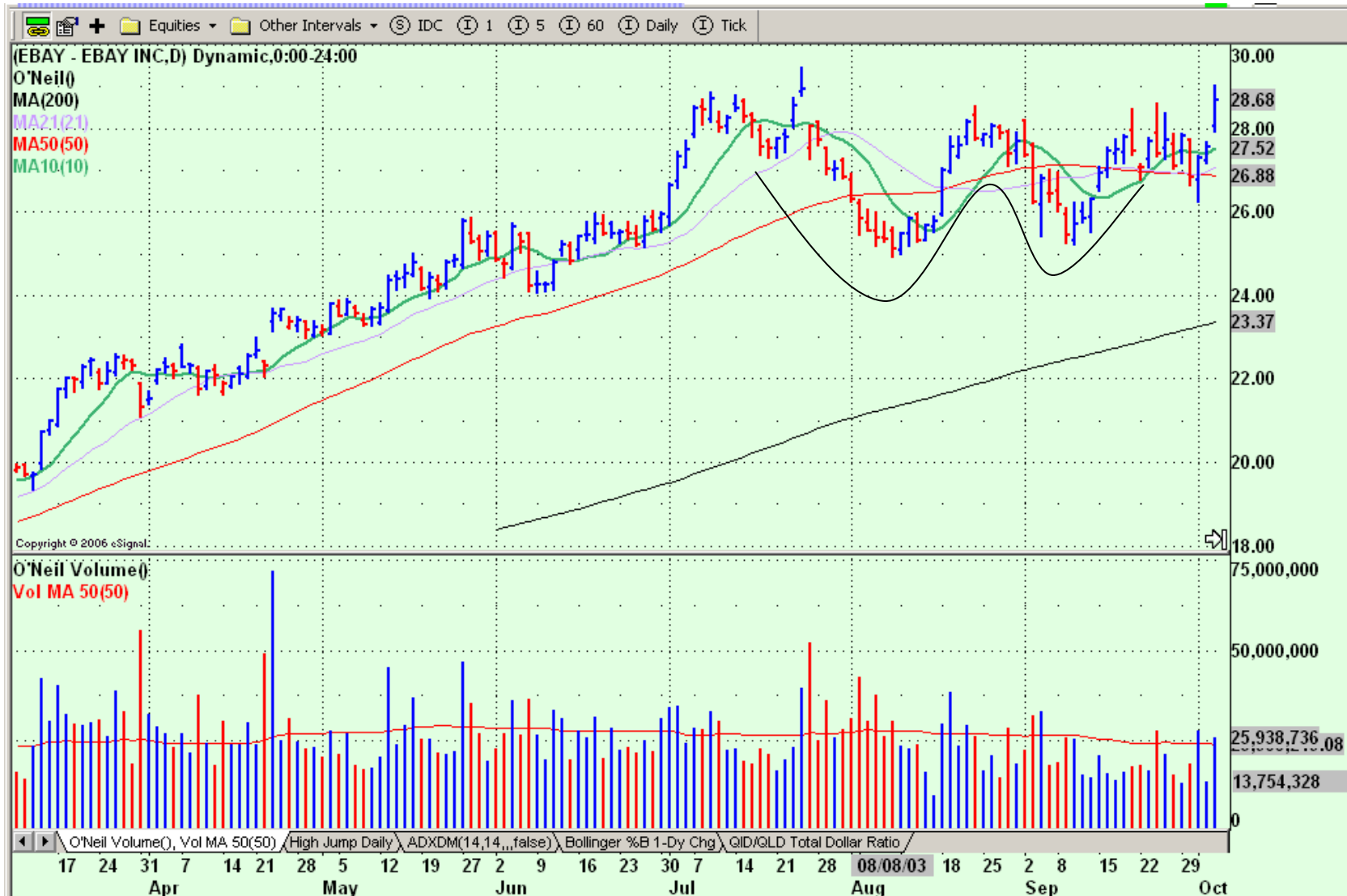
# STLD Flawed Double Bottom



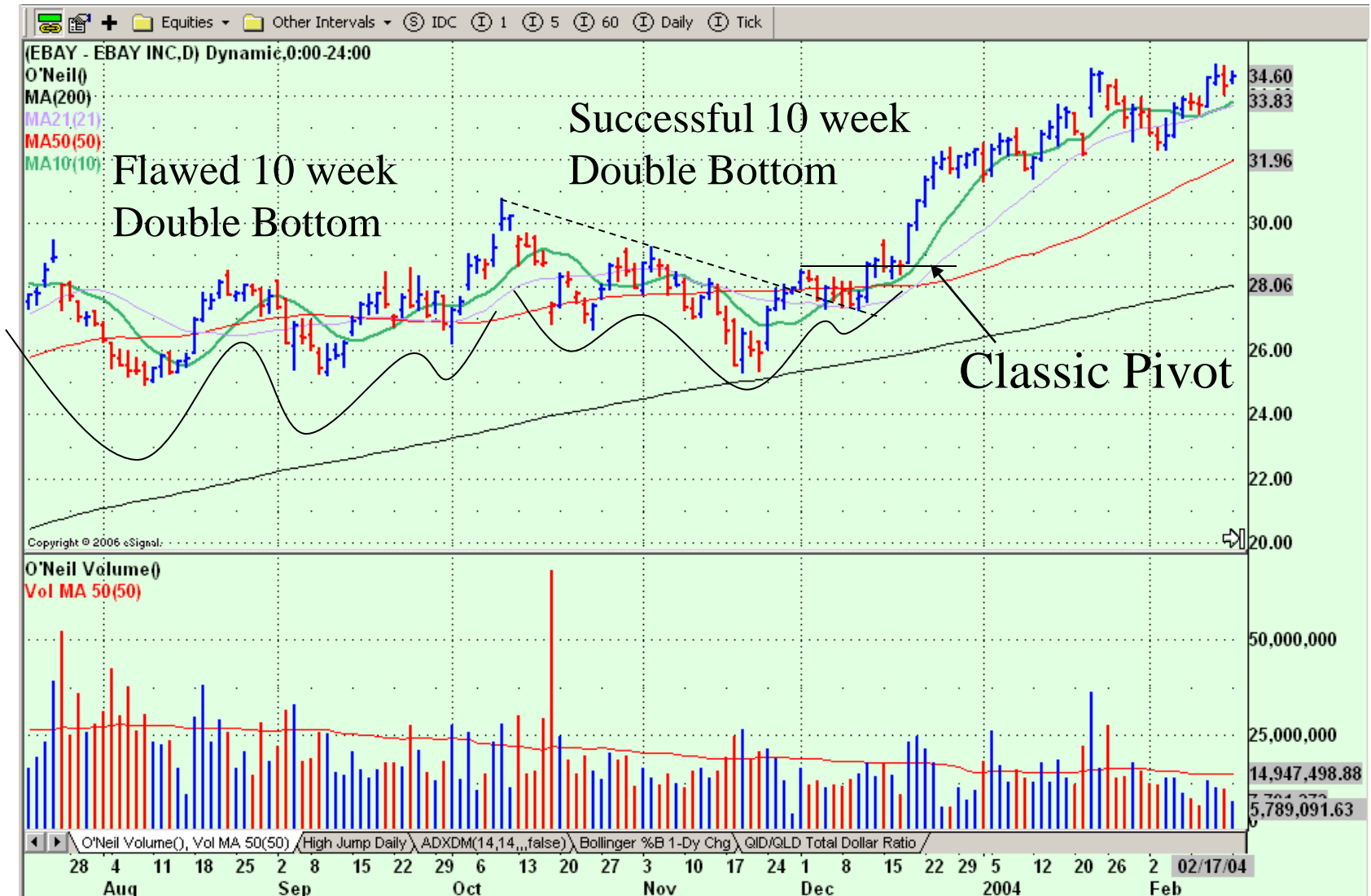
# STLD Later



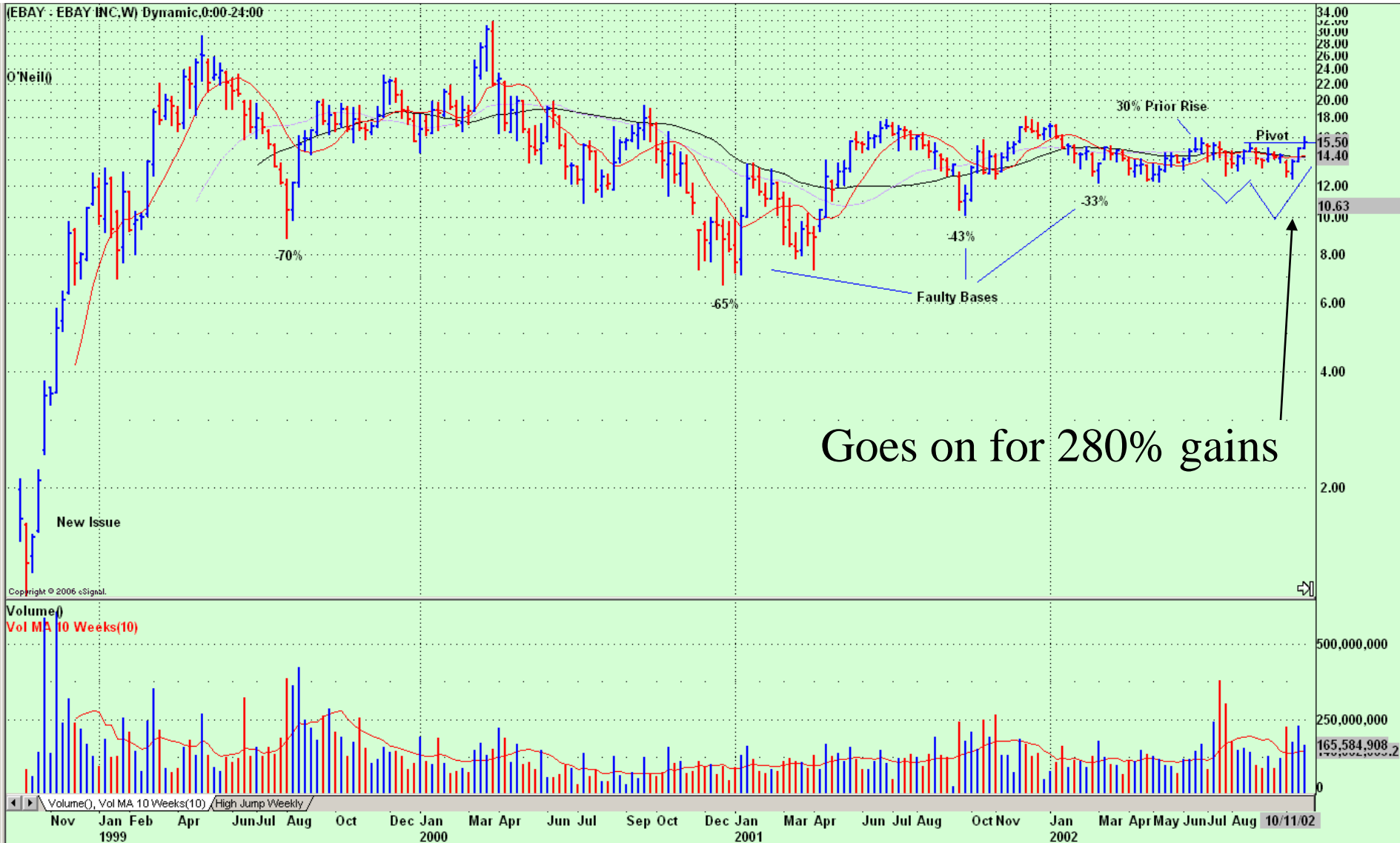
# EBAY Double Bottom?



# EBAY Later



# EBAY 2002





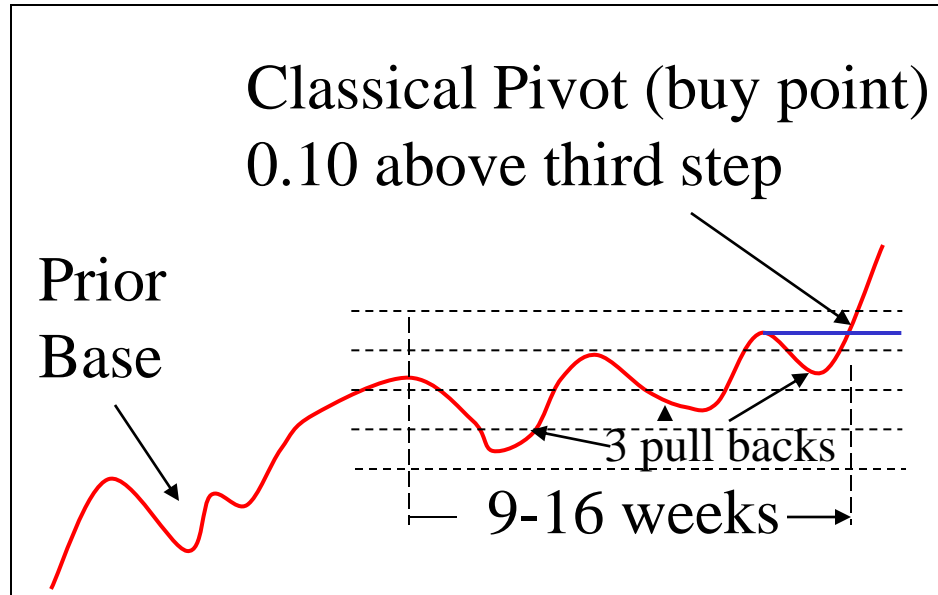
# Module-1 Recap

- This ends the first Module
- We have discussed the Market in general
- Who can succeed
- Basic rules
- CANSLIM definition
- Two of the most predominant technical buying patterns as well as faulty formations

# Next Month we will discuss other buying patterns

- Ascending base
- Flat Base
- High Tight Flag
- Cup without Handle
- Base on Base
- IPO Bases
- Base Stage Counting
- Investor Psychology

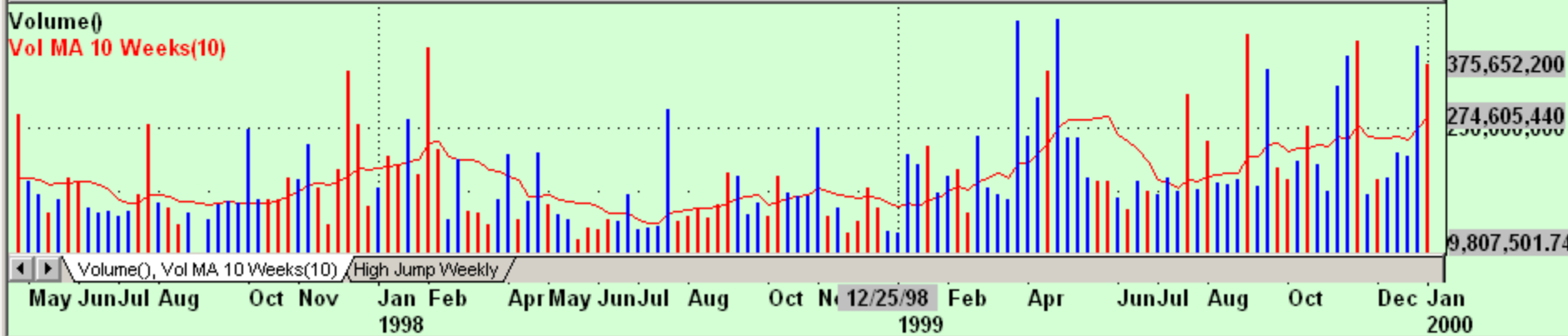
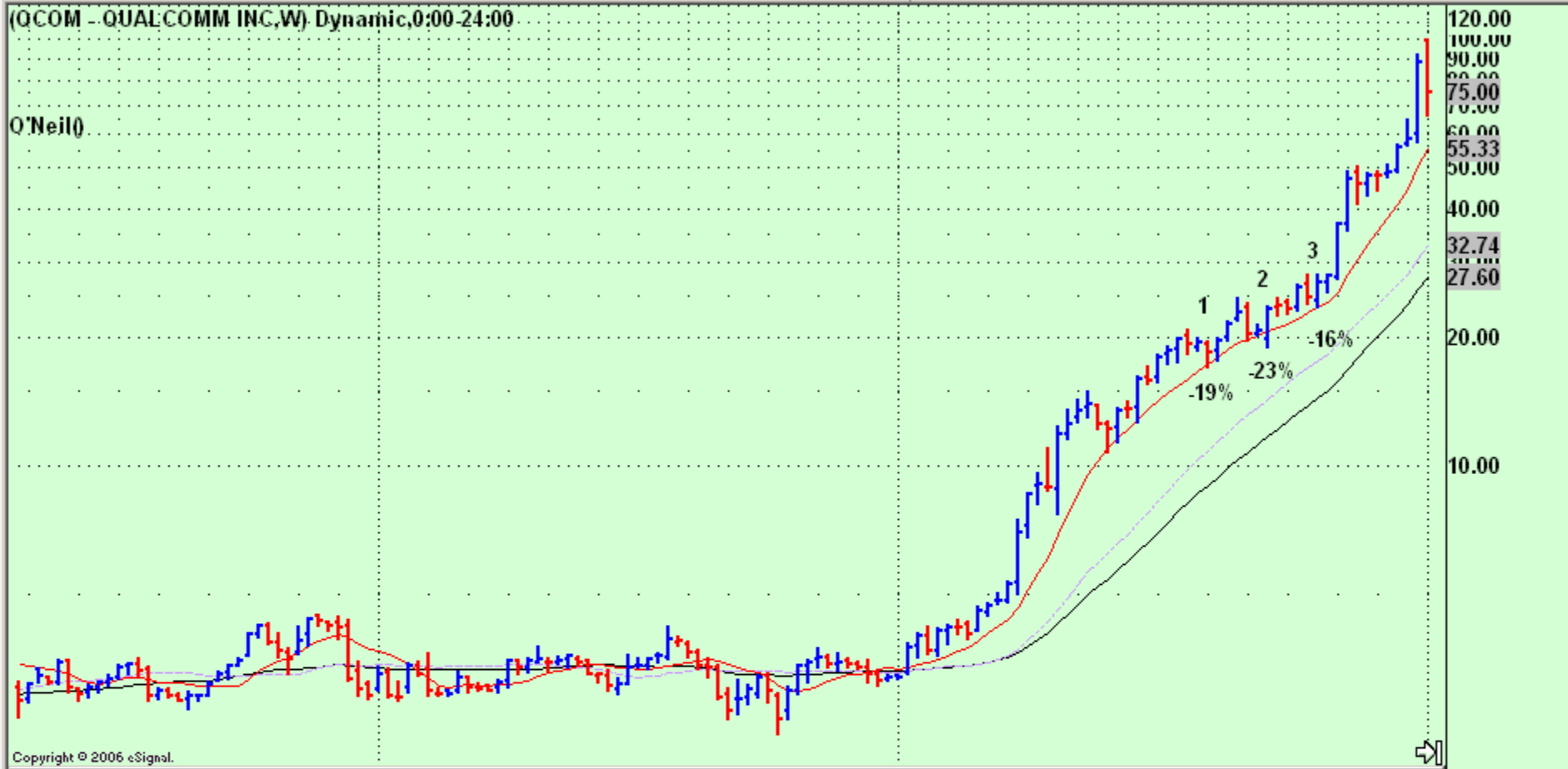
# Ascending Base



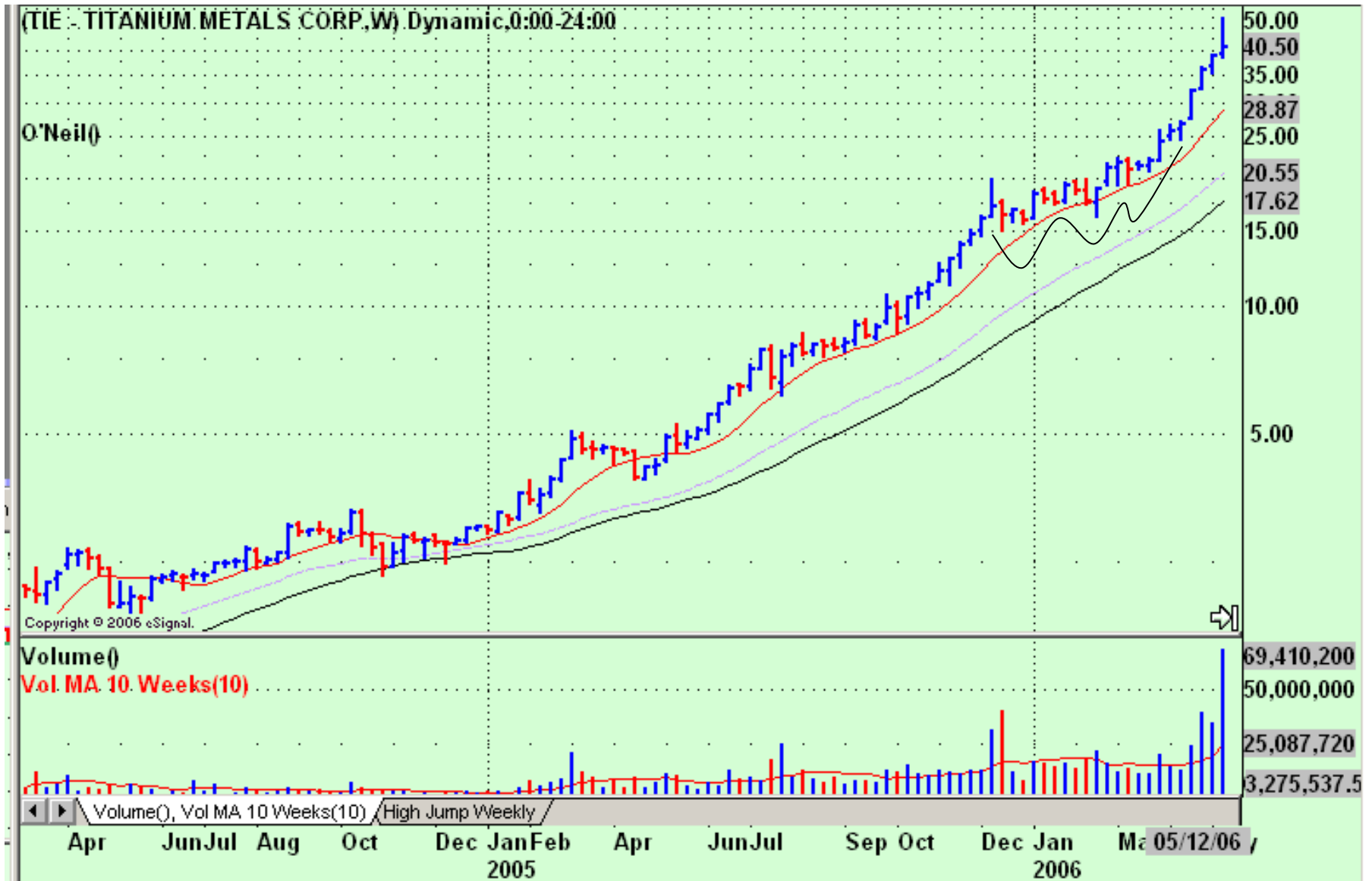
Almost always formed  
by short term general  
market sell off

- Secondary base that usually forms after a double bottom or cup with handle base
- Three pullbacks of 10%-20% in price
- Successively higher lows and higher highs
- Generally 9 to 16 weeks in duration

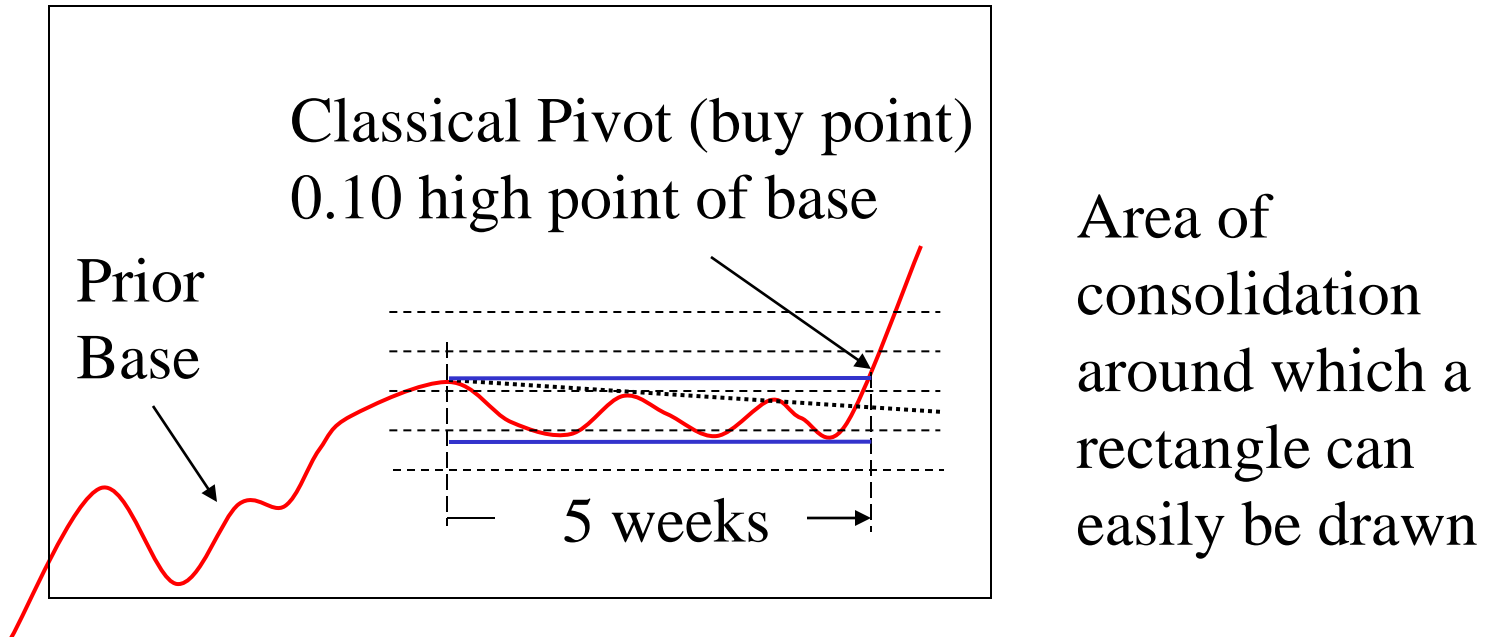
# QCOM Ascending Base



# TIE Ascending Base



# Flat Base



- Secondary base, usually forms after a prior base
- Sideways movement with maximum of 15% correction
- Volume should dry up at least slightly

A K Steel Holding Corp (AKS) NYSE Steel-producers

Volume 17,773,000 \$47.93 +5.35

Option On CB/AM/PA/PH

Market Capitalization \$5.34 Billion

50-Day Avg Volume 2,982,300

Short Interest 2.2 days + 4%

Shares in Float 109.3 Million

Off 52-Week High -11.2%

Shares Outstanding 111.5 Million

52-Week Hi-Lo \$53.97-\$19.66

HEADQUARTERS: MIDDLETOWN, OH PHONE: 513-425-5000

[www.aksteel.com](http://www.aksteel.com)

MANUFACTURES FLAT-ROLLED CARBON AND STAINLESS/ELECTRICAL STEEL FOR THE AUTOMOTIVE/CONSTRUCTION/APPLIANCE INDUSTRIES.

10/08/07 Reached a health care settlement with a group of retirees from its Middletown (OH) Works plant.

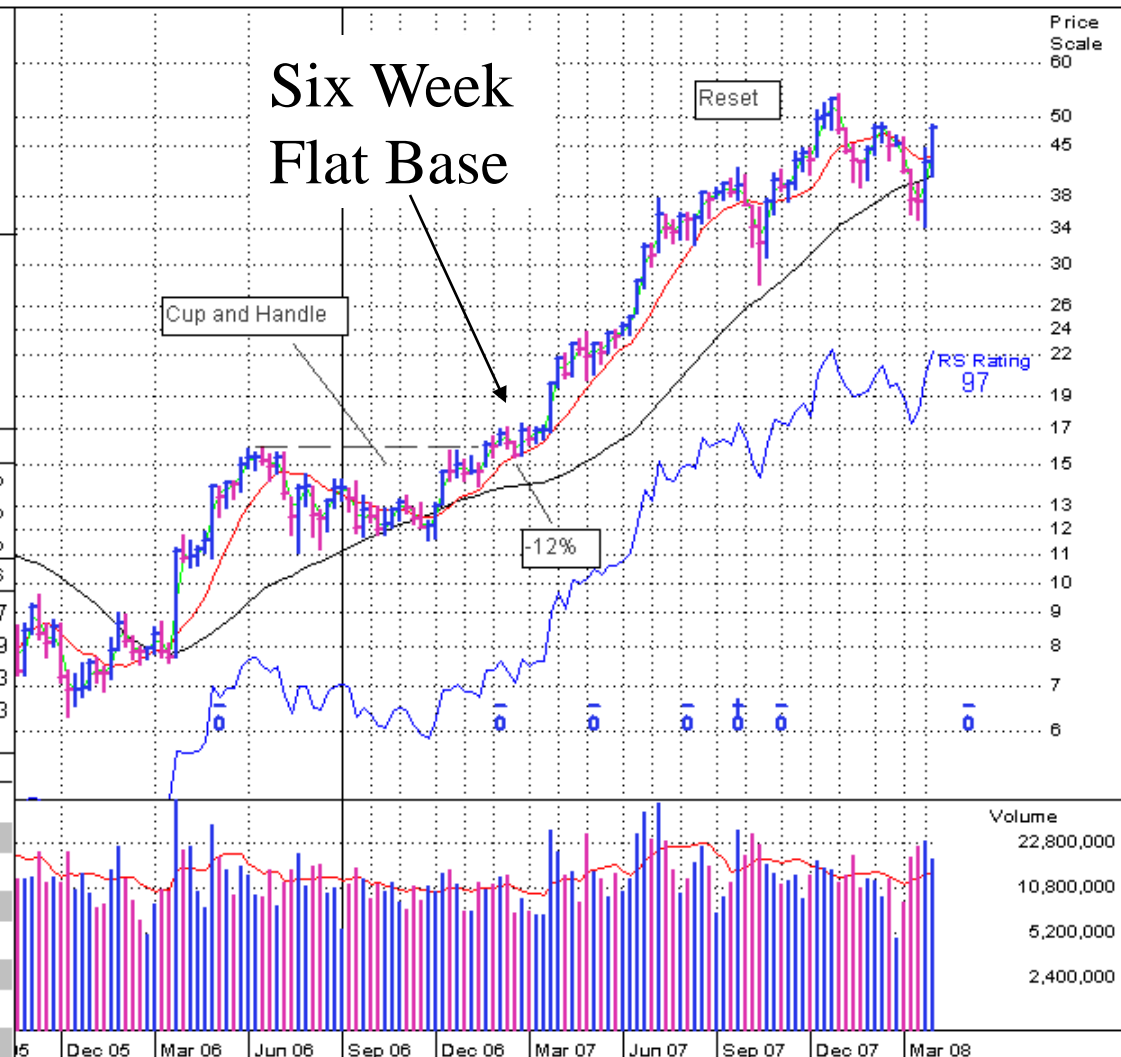
IPO 3/30/1994

Year (Dec)	EPS (\$)	Price (\$)	High	Low	EPS Rating	74
2001	0.01	15	7		Group RS Rating	96
2002	-0.39	14	6		SMR Rating	C
2003	-2.32	8	1		Acc/Dis Rating	B
2004	-0.84▲	16	3		Composite Rating	93
2005	0.29▲	18	6		Timeliness Rating	A
2006	0.26▲	17	7		Sponsorship Rating	D
2007	3.38▲	53	16		EPS Growth Rate	N/A
2008	3.80	est. 12%	▲		Earnings Stability	N/A
2009	3.90	est. 3%	▲		P/E Ratio	14 (0.9 X SP)

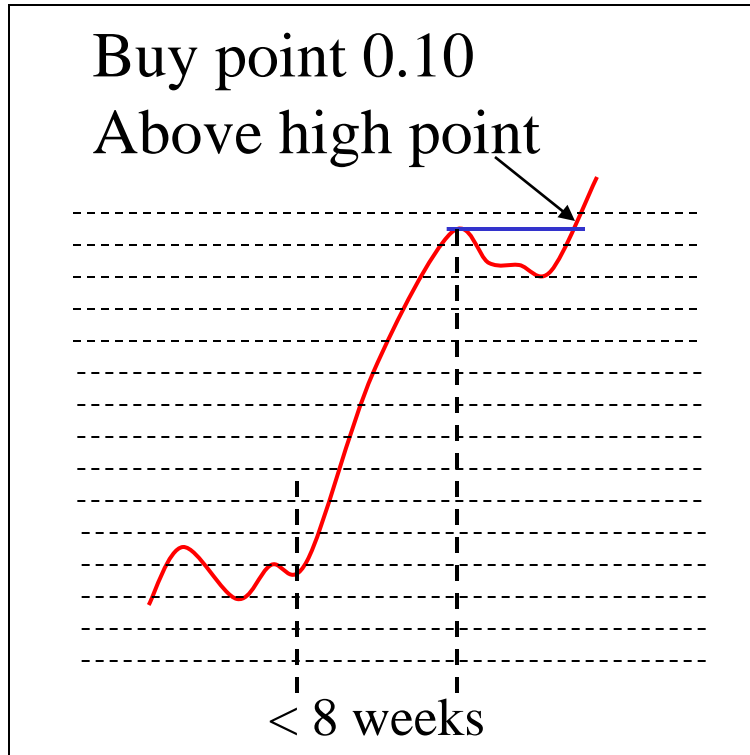
Yield	0.4%	Return on Equity	['06: 9%]
ExDiv	2/13/08	Cash Flow	['06: \$2.10]
Book Value	X12.82	Debt	267%
Inventory T/O	7.29X	R & D	N/A
WD Vol Ratio	2.1	Alpha	0.38
New CEO	N/A	Beta	1.68

Top RS in Grp	Symbol	RS	EPS Rtg	No. of Funds
ComphSidrg	SID	99	97	Mar-07 77
Mechel	MTL	99	88	Jun-07 79
ArcelrMt	MT	92	93	Sep-07 93
StlDyna	STLD	92	67	Dec-07 103
Ternium	TX	92	55	

Quarterly	EPS(\$)	% Chg	Sales(\$Mil)	% Chg
Mar-06	0.07	-88%	1435.9	+1%
Jun-06	0.27	-23%	1497.3	+3%
Sep-06	0.36	#+238%	1553.6	+12%
Dec-06	▲-0.45	N/A	1582.2	+15%
Mar-07	▲0.56	+700%	1719.9	+20%
Jun-07	▲1.00	+270%	1869.5	+25%
Sep-07	0.87	+142%	1721.7	+11%
Dec-07*	0.95	#+311%	1691.9	+7%



# High Tight Flag



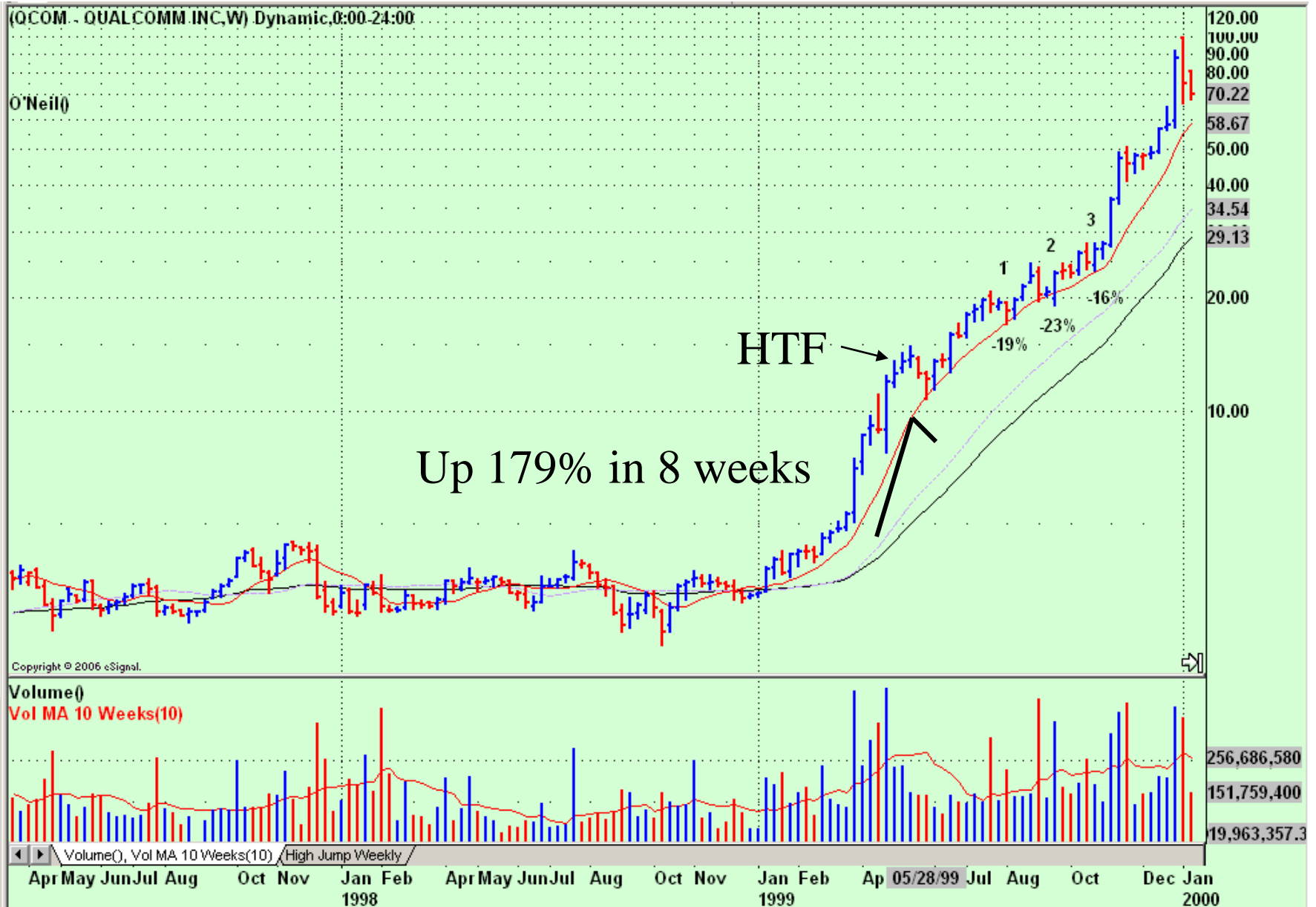
Starts with a 100-120% run-up in a very short period of time (4-8 weeks)

Then corrects sideways (or drifts down slightly) for 3-4 weeks correcting no more than 10-20%

- Very rare base that tends to have an explosive move. You may get one or two of these in a bull market.



# QCOM High Tight Flag



Option On CB/AM/PA/PH  
Short Interest 0.9 days + 29%

Market Capitalization \$2.69 Billion  
Shares in Float 18.8 Million  
Shares Outstanding 36.2 Million

50-Day Avg Volume 4,491,200  
Off 52-Week High -43.4%  
52-Week Hi-Lo \$131.34-\$16.85

HEADQUARTERS: GREECE, \_ PHONE:

[www.dryships.com](http://www.dryships.com)

GREEK PROVIDER OF CARRIER TRANSPORTATION SERVICES FOR DRYBULK COMMODITIES SUCH AS COAL/IRON ORE WITH 35 VESSEL FLEET.  
12/18/07 To acquire about 30.4% stake of offshore drilling contractor, Ocean Rig ASA for about \$405 mil.

Year	EPS	Price (\$)	EPS Rating	99
(Dec)	(\$)	High Low	Group RS Rating	57
2000			SMR Rating	A
2001	0.34		Acc/Dis Rating	B-
2002	-0.04		Composite Rating	96
2003	0.42		Timeliness Rating	B
2004	1.38		Sponsorship Rating	A
2005	3.83	23 11	EPS Growth Rate	97%
2006	1.45	18 8	Earnings Stability	87
2007	9.51	est. 556%	P/E Ratio	13 (0.9 X SP)
2008	18.07	est. 90%	5-Year P/E Range	2-22
Yield	1.1%		Return on Equity	12%
ExDiv	1/16/08		Cash Flow	\$3.12
Book Value	X5.96		Debt 130%	Ownership
Inventory T/O	127.50X		R & D N/A	Mgmt 1%
UID Vol Ratio	0.9		Alpha 0.71	Banks 6%
New CEO	N/A		Beta 2.14	Funds 17%
Top RS in Grp	Symbol	RS	EPS Rtg	No. of Funds
TBSIntlA	TBSI	98	98	
QuintMa	QMAR	95	80	
Navios	NM	94	64	
ExcelMar	EXM	93	98	
Kirby Corp	KEX	93	93	

Quarterly	EPS(\$)	% Chg	Sales(\$Mil)	% Chg
Dec-05	0.76	+181%	61.7	+311%
Mar-06	0.60	-25%	54.8	+82%
Jun-06	-0.03	N/A	54.5	-30%
Sep-06	0.11	-87%	60.0	+2%
Dec-06	0.77	+1%	79.1	+28%
Mar-07	1.01	+68%	86.7	+58%
Jun-07	1.59	#+999%	112.5	+106%
Sep-07	2.38	+999%	150.0	+150%



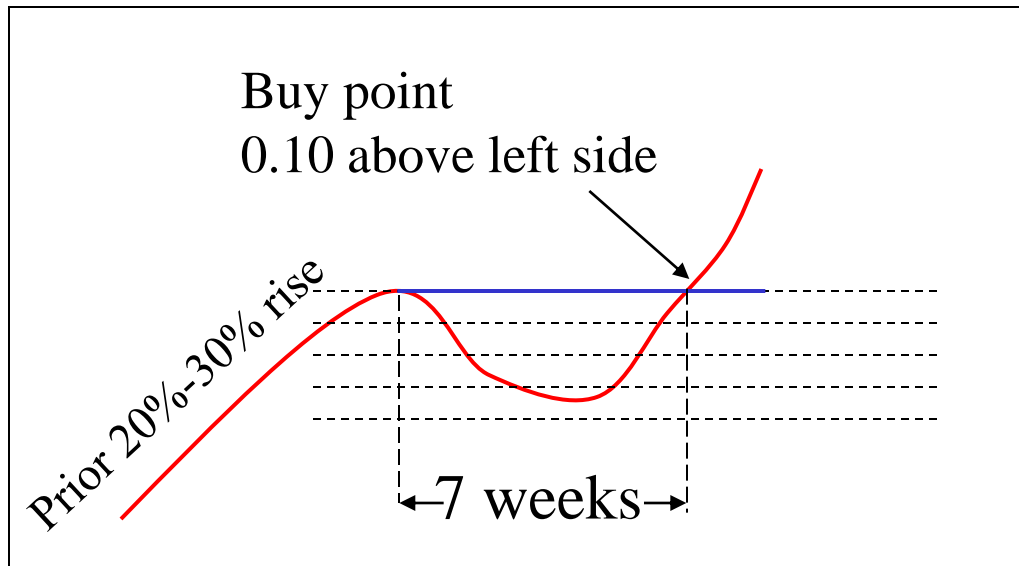
# TASR High Tight Flag



# TASR-Later



# Cup without Handle Base



- Tend to be early stage bases of small and mid-cap stocks with dramatic earnings increases
- Slightly less success than cup with handle patterns, 50% succeed vs. 70% for C&H bases
- Most of these work in an emerging bull market

Option On CB/AM/PA/PH ©

Market Capitalization \$1.34 Billion

50-Day Avg Volume 617,200

Short Interest 2.1 days - 19%

Shares in Float 20.0 Million

Off 52-Week High -9.8%

Shares Outstanding 27.4 Million

52-Week Hi-Lo \$54.30-\$21.65

HEADQUARTERS: CHINA, \_ PHONE:

www.chinameditech.com

CHINESE DEVELOPER OF HIGH INTENSITY FOCUSED ULTRASOUND PRODUCTS TO TREAT SOLID CANCERS AND BENIGN TUMORS.

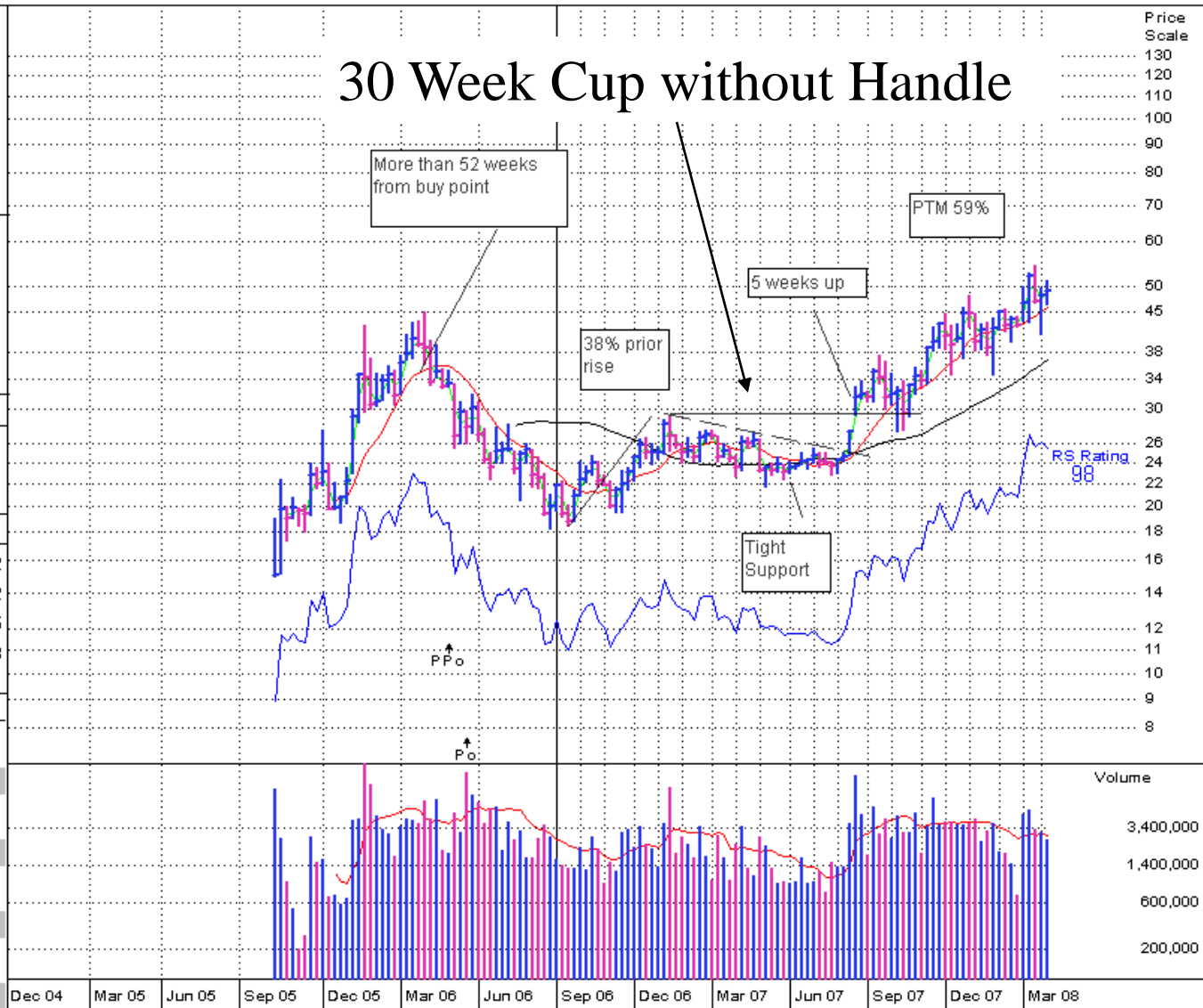
11/26/07 To acquire the entire equity interest in Beijing Bio-Ekon Biotechnology for \$28.8 mil in cash.

IPO 8/10/2005

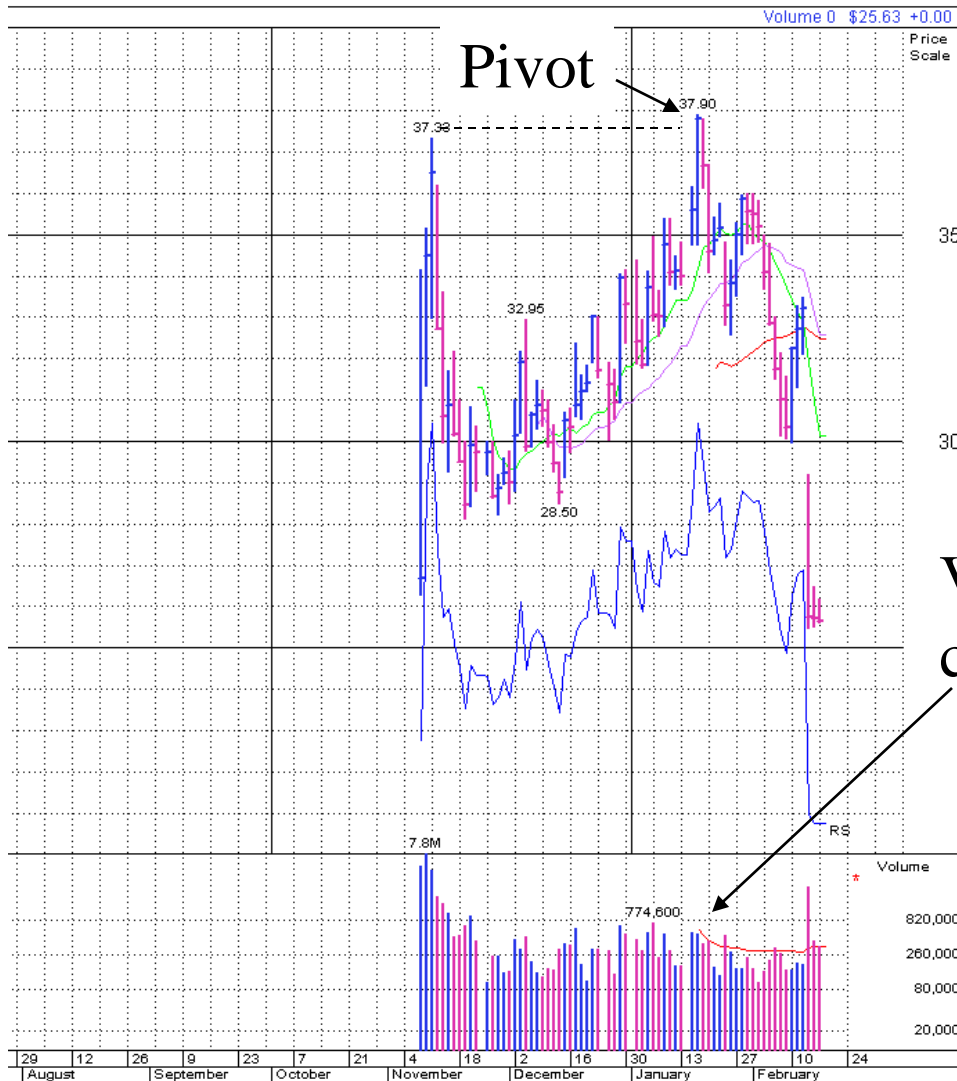
Year	EPS	Price (\$)	EPS Rating	98
(Mar)	(\$)	High Low	Group RS Rating	97
2001	0.08		SMR Rating	A
2002	0.09		Acc/Dis Rating	C+
2003	0.12		Composite Rating	99
2004	0.27		Timeliness Rating	A
2005	0.52	42 14	Sponsorship Rating	A
2006	0.87	44 18	EPS Growth Rate	88%
2007	1.39	48 21	Earnings Stability	25
2008	1.52	est. 9%▲	P/E Ratio	29 (1.9 X SP)
2009	2.09	est. 37%▲	5-Year P/E Range	15-56
Yield	0.8%		Return on Equity	24%
ExDiv	7/16/07		Cash Flow	\$1.54
Book Value	X8.05		Debt	96%
Inventory T/O	28.79X		R & D	5.8%
U/D Vol Ratio	1.4		Alpha	0.32
New CEO	N/A		Beta	1.01
Ownership			Mgmt	27%
Banks	6%		Funds	15%
Top RS in Grp	Symbol	RS	EPS Rtg	No. of Funds
IntSurg	ISRG	99	99	Mar-07 12
Cepheid	CPHD	99	37	Jun-07 12
VentanaMd	VMSI	98	75	Sep-07 15
Visicu	EICU	98	57	Dec-07 18
Illumina	ILMN	98	32	

Quarterly	EPS(\$)	% Chg	Sales(\$Mil)	% Chg
Dec-05	0.26	+44%	13.7	+66%
Mar-06	0.29	+71%	13.9	+55%
Jun-06	0.23	+77%	11.4	+53%
Sep-06	0.35	+84%	16.7	+53%
Dec-06	0.41	+58%	20.7	+51%
Mar-07	0.40	+38%	21.1	+52%
Jun-07	0.34	+48%	19.9	+75%
Sep-07	0.50	+43%	28.6	+72%

# 30 Week Cup without Handle

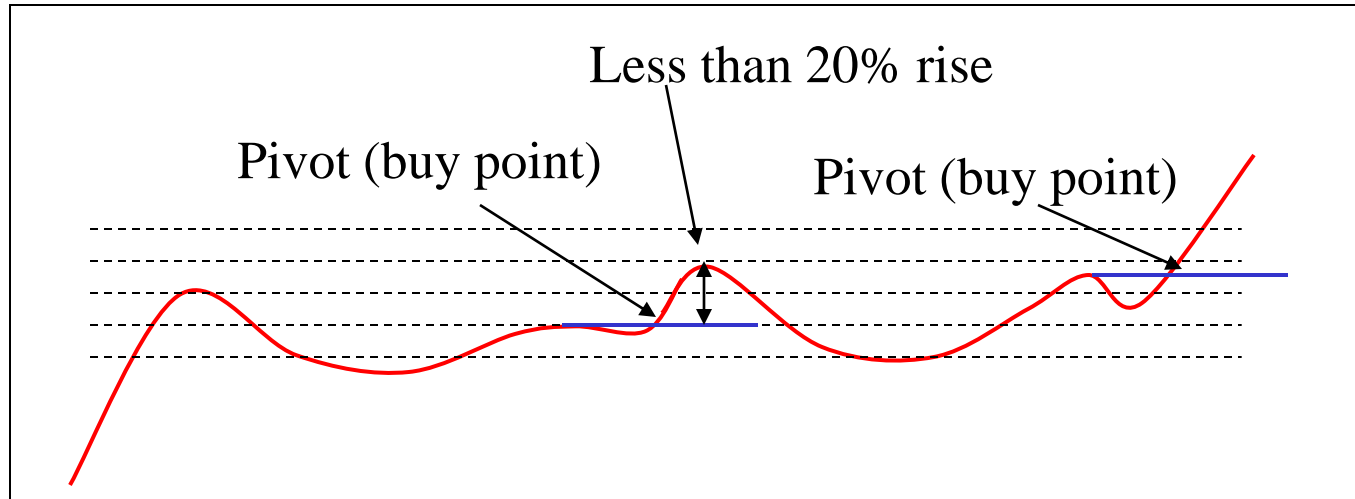


# IRBT Faulty Cup



Volume doesn't confirm price action

# Base on Base

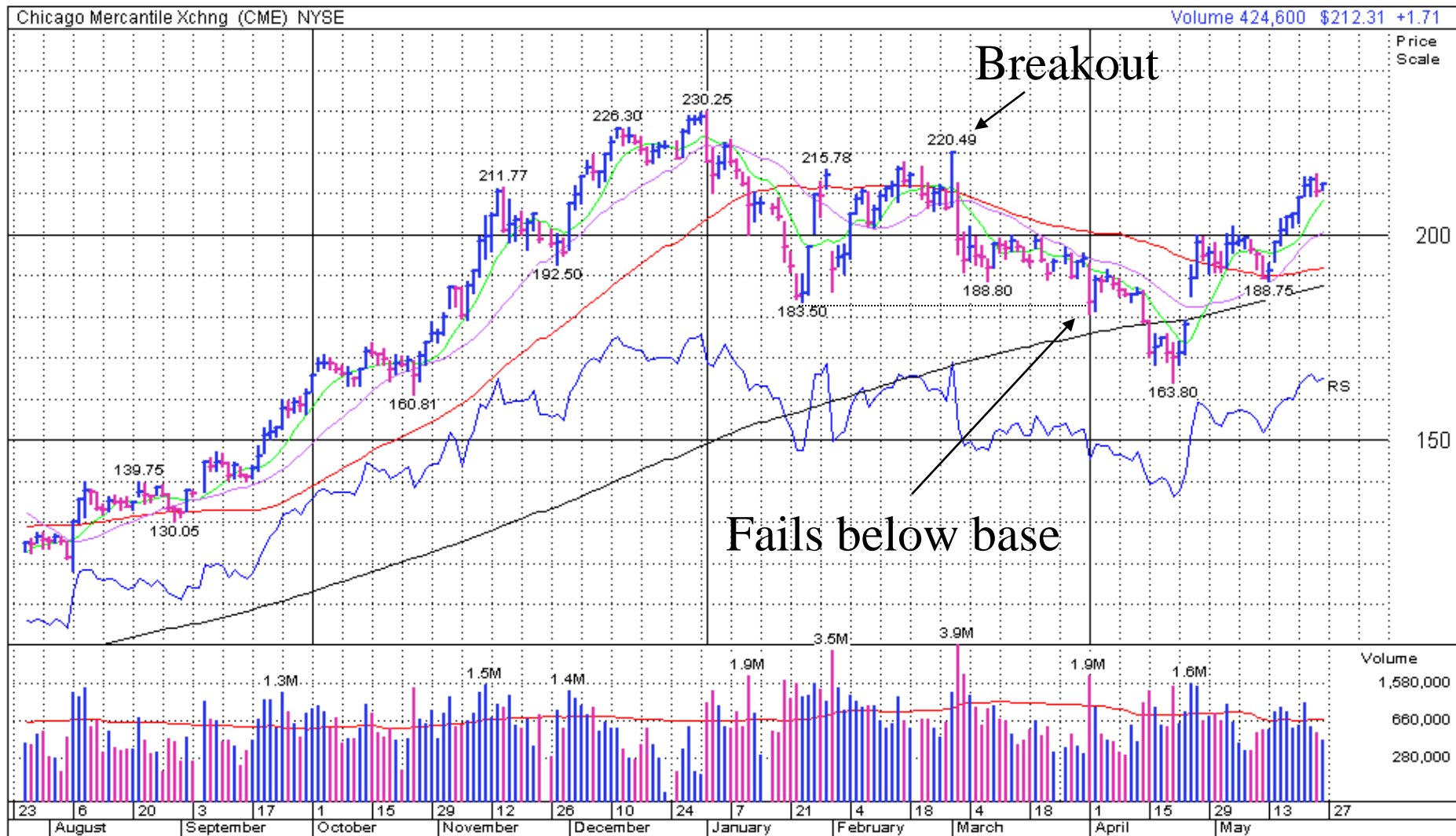


- A base on base pattern is created when a second base forms less than 20% above the pivot point of a prior base
- Generally, base on base formations are desirable patterns



# Base Counting Example

# Base Reset Example



# Long Base Reset

Cisco Systems Inc (CSCO) NMS Computer-networking

Volume 128,066,000 \$26.84 -0.09

Option On CB/AM/P A/P/H  
Short Interest 1.2 days + 8%

Market Capitalization \$163.37 Billion  
Shares in Float 5965.0 Million  
Shares Outstanding 6086.7 Million

50-Day Avg Volume 49,982,000  
Off 52-Week High -2.2%  
52-Week Hi-Lo \$27.44-\$16.97

HEADQUARTERS: SAN JOSE, CA PHONE: 408-526-4000

[www.cisco.com](http://www.cisco.com)

MANUFACTURES SWITCHES, ROUTERS AND OTHER NETWORKING AND COMMUNICATIONS HARDWARE FOR BUSINESS AND HOME APPLICATIONS.  
10/26/06 To acquire Orative Corp, developer of mobile software solutions, for about \$31 mil cash.

IPO 2/16/1990

Year (Jul)	EPS (\$)	Price (\$)	High	Low
2000	0.53	82	35	
2001	0.41	44	11	
2002	0.39	21	8	
2003	0.59	24	12	
2004	0.76	29	17	
2005	0.92	20	16	
2006	1.10	27	17	
2007	1.29	est. 17%		
2008	1.52	est. 18%		

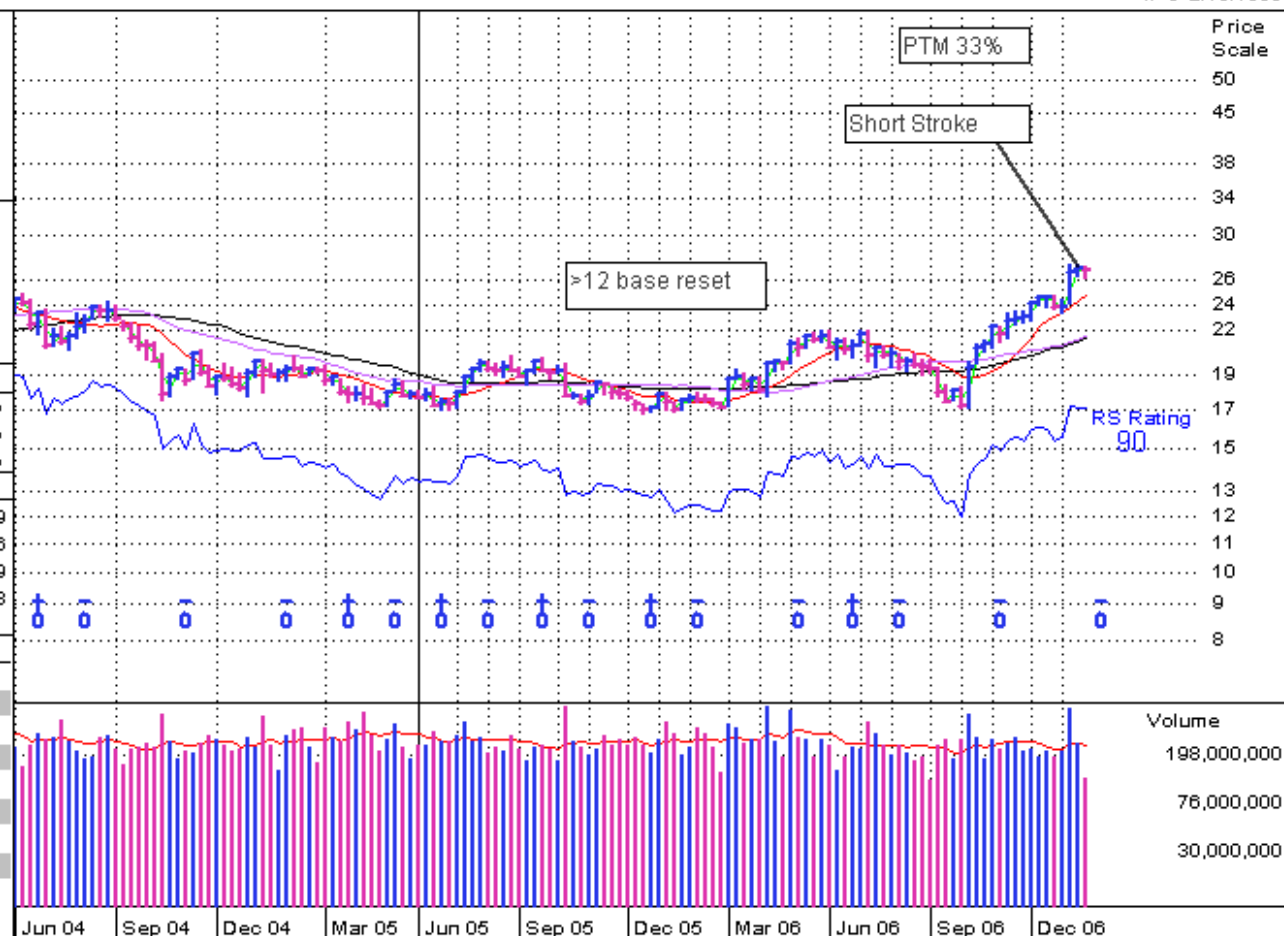
EPS Rating	87
Group RS Rating	99
SMR Rating	A
Acc/Dis Rating	A+
Composite Rating	99
Timeliness Rating	A
Sponsorship Rating	D
EPS Growth Rate	36%
Earnings Stability	20
P/E Ratio	23 (1.4 X SP)
5-Year P/E Range	15-111
Return on Equity	29%
Cash Flow	\$1.35

Yield	NONE
ExDiv	N/A
Book Value	X6.83
Inventory T/O	21.35X
U/D Vol Ratio	1.5
New CEO	N/A

Debt	26%
R & D	14.3%
Alpha	0.13
Beta	1.28
Ownership	
Mgmt	2%
Banks	12%
Funds	18%

Top RS in Grp	Symbol	RS	EPS Rtg	No. of Funds
Lanoptic	LNOP	99	26	Sep-05 1199
Riverbed	RVBD	99	20	Dec-05 1086
Polycom	PLCM	93	79	Mar-06 1149
Netgear	NTGR	90	92	Jun-06 1153
Parkervision	PRKR	89	28	

Quarterly	EPS(\$)	% Chg	Sales(\$Mil)	% Chg
Jan-05	0.22	+22%	6062.0	+12%
Apr-05	0.23	+21%	6187.0	+10%
Jul-05	0.25	+19%	6581.0	+11%
Oct-05	0.25	+19%	6550.0	+10%
Jan-06	0.26	+18%	6628.0	+9%
Apr-06	0.29	+26%	7322.0	+18%
Jul-06	0.30	+20%	7984.0	+21%
Oct-06	0.31	+24%	8184.0	+25%



# Investor Psychology

- We have all made terrible mistakes
- Our egos and emotions get in the way
- The distinction is knowing what to do and actually doing it
- Fear is the big enemy and without rules our emotions cause us to do exactly the wrong thing

*Ex scietifica fiducia*

# How to stay disciplined

- Have rules
- Trust your rules
- Execute your rules
  - There are no bad trades if you follow your rules
- Write out your rules, put them around your office and let them stare you in the face
  - Review them every day
- Keep a trading journal
- Meet with other investors who share your approach to trading
  - Share your ideas, reinforce the rules, motivate each other
  - Practice meditation or Zen-anything that will help subdue the ego
  - At WON, portfolio managers meet once a week to review their work (examples) and discuss stocks and rules.
  - Peer review helps us learn from our mistakes

# Where we go wrong

- Violate a rule--Undermine your confidence
  - Single best reason why to follow the rules
- Not cutting losses
- Selling winners too soon, fear at work
  - If you don't have a rule to keep you in a stock you will never achieve 100% gains
- Averaging down on losers, ego at work
- Trading against the trend, greed at work
- Over concentrating your account in a single position, Hail Mary, own 5-7 positions
- Buying a stock before it proves itself, act on what we see, not what we want to see
- Holding out for the last fraction of a point, greed at work
- Bottom Fishing
- Keeping a pet stock, draws attention away from leaders

# Losing Streaks

- They happen to everyone and can take a toll on our psychology
- Stop trading!
- Happens most often after a successful run
  - Inflated egos make mistakes
- Three losers in a row, take a break
  - You may have missed a market turn
- After going through a losing streak...
  - You must regain your confidence
  - Start small, trade small, don't swing for the fences.

# Other Tools

- eSignal
- IBD eTables
- Investors.com Market Wrap Video
- Investors.com Stocks on the Move
- Yahoo Finance
- Morningstar
- Decision Moose
- HGSI



# A Daily Routine

- Read IBD
  - Check top of page 1 for follow-thru/distribution days
  - Read the Big Picture
  - Read General Market Indicator Page
  - Check New America (2 stocks)
  - Check IBD Mutual funds page, make mental note of holdings
  - Scan Where the Big Money is Flowing
  - Scan Stocks in the News mini-charts. Look carefully at first two (hand selected) charts for NASDAQ and NYSE
- Check investors.com
  - Look at screen of the day
  - Watch Market Wrap video at end of day
- Keep a trading log
  - Write down trades and reasons why you bought or sold
  - Write down every breakout and leadership failure that you see
- Compile ideas into lists
- Once a month review old lists from 2-3 months prior

# Decision Moose



[www.decisionmoose.com](http://www.decisionmoose.com)

- Asset allocation model that supports high level view of what is working and what is not in the market
- Great weekly market summary

Time Period	Index Moose	S&P500 (SPY)
Index Moose Total (since 8/30/96)	2379%	104%
ETF Version (since 5/7/00)	800%	-6%
7 Years (364 weeks)	671%	-2%
6 Years (312 weeks)	519%	29%
5 Years (260 weeks)	224%	59%
4 Years (208 weeks)	126%	17%
3 Years (156 weeks)	88%	13%
2 Years (104 weeks)	53%	4%
1 Year (52 weeks)	26%	-6%

RANK	ASSET CLASS	45-WK TREND	10-WK TREND
1	Gold Bullion (GLD)	POS	POS
1	Cash (3-month T-Bill)	POS	POS
3	Long Zero-Coupon Treasury Bonds (BTTRX)	POS	POS
4	Latin America 40 Equity Index (ILF)	POS	NEG
5	Pacific ex-Japan Equity Index (EPP)	NEU	NEG
6	Europe 350 Equity Index (IEV)	NEG	NEG
7	US Large-cap Equity Index (SPY)	NEG	NEG
8	Japan Equity Index (EWJ)	NEG	NEG
9	US Small-cap Equity Index (IWM)	NEG	NEG

# Building a Position

- Add shares when there are signs of support
- When you add shares, add fewer shares than your previous purchase
  - One conservative measure is to keep your average cost 25% below current price
- If recently added shares drop 7%, sell those shares
  - Later, if you have an opportunity to buy, buy those shares back, plus some more...

# Follow-up Buying

Primary buy at the pivot, 1<sup>st</sup> or 2<sup>nd</sup> stage base

1. Automatic follow-up buy @ +2% and +5%
2. After another proper base forms
3. Pullbacks to the 10-week line
4. “Three-weeks tight”
5. Shakeout + 3

Pull Back to 50-Day Moving Average

# Three-Tight Weeks

# Signs of Support

Confidence to add shares, not buy points

- “Short Stroke” (weekly chart)
- Five weeks or more in a row up
  - 30% of big winners have five weeks in a row up in the right side of their base

# Short Stroke



# Signs of Weakness

- Heavy Daily volume without further upside progress
- New high on low volume
- Poor rally in light volume
- Lagging relative strength line
- Faulty base structure
- From recent new high: Two-weeks down, then two weeks up, *to a new high*

# P/E Expansion

- Experience has shown that small and mid cap leadership stocks tend to top after the P/E ratio has expanded on average 131% from its original first stage base
  - Large Cap stocks tend to top after the P/E expands 98%
- 
- P/E expansion is effective for setting working targets based on extensive historical studies of winning stocks
  - Use this as a possible means to stay in a position when a stock is making its early moves and not sell out too early
  - P/E expansion is useful to amplify sell rules: stock approaches sell target and is showing weakness

# P/E Expansion

- P/E expansion is an effective method for setting working targets based on extensive historical studies of winning stocks
- Use this as a possible means to stay in a position when a stock is making its early moves and not sell out too early
- P/E expansion is useful to amplify sell rules: stock approaches sell target and is showing weakness

# P/E Expansion Method

- Step 1 Determine the Target P/E

$$\text{Target P/E} = \text{P/E @ Pivot} * 2.3$$

First stage base only, growth stocks only (if non-growth use 1.98)

If later stage, estimate initial P/E at 1<sup>st</sup> stage breakout by using the sum of the trailing four quarters of earnings (TEPS) at the time of the initial breakout:

$$\text{P/E at Pivot} = 1^{\text{st}} \text{ Stage Pivot Price} / \text{TEPS}$$

- Step 2 Identify estimated earnings per share 2 years out (Daily Graphs has this)
- Step 3 Determine Price Target  
Multiply Target P/E by estimated Earnings 2 years out

# Not a growth stock, use 98% (1.98) expansion factor

Noble Intl Ltd (NOBL) NMS Auto/truck-original Eqp		Market Capitalization	\$201.00 Million	Volume	65,000	\$22.54 -1.03
Option On	NONE ©	Shares in Float	6.35 Million	50-Day Avg Volume	149,200	
Short Interest	0.6 days - 84%	Shares Outstanding	8.95 Million	Off 52-Week High		-31.3%
HEADQUARTERS: WARREN, MI PHONE: 586-751-5600				52-Week Hi-Lo	\$32.80-\$8.58	
HOLDING CO FOR A FULL-SERVICE SUPPLIER OF TAILORED LASER WELDED BLANKS FOR THE AUTOMOTIVE INDUSTRY.				www.nobleintl.com		
03/31/04 Q1 2004 includes \$.4 mil write-off of deferred financing fees r						

**Step 3. Price Target = 1.67 \* 1.98 \* 10.2 = 33.7**

**Step 2. EPS + 2 years = 1.67**

**Step 1. 1<sup>st</sup> Stage Pivot = \$9.98**

**P/E = 9.98/0.98=10.2**

**TEPS = 0.98**

**Can you hold here?**

Year	EPS	Price (\$)	EPS Rating	87
(Dec)	(\$)	High Low	Group RS Rating	18
1997	0.13	9 6	SMR Rating	A
1998	0.58	12 6	Acc/Dis Rating	E
1999	0.92	20 8	Composite Rating	76
2000	0.25	16 4	Timeliness Rating	C
2001	0.90	8 4	Sponsorship Rating	C
2002	0.80	16 6	EPS Growth Rate	13%
2003	1.13 ▲	23 5	Earnings Stability	48
2004	1.42	est. 26% ▲	P/E Ratio	19 (1.1 X SP)
2005	1.67	est. 18% ▲	5-Year P/E Range	5-32

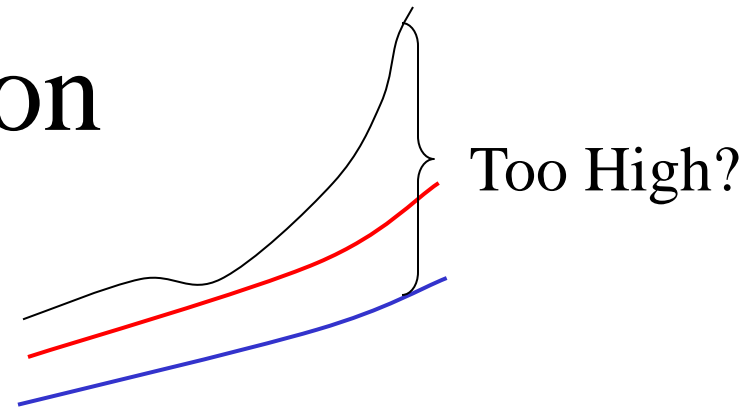
Yield	1.8%	Return on Equity	21%
ExDiv	6/15/04	Cash Flow	\$2.14
Book Value	X4.15	Debt	85%
Inventory T/O	15.37X	R & D	N/A
U/D Vol Ratio	0.6	Alpha	0.37
New CEO	N/A	Beta	1.01
		Ownership	Mgmt 29%
			Banks 10%
			Funds 17%

Top RS in Grp	Symbol	RS	EPS Rtg	No. of Funds
TencoAuto	TEN	94	82	Jun-03 13
Visteon	VC	89	49	Sep-03 13
Modine Mfg	MODI	77	64	Dec-03 17
Autoliv	ALV	69	87	Mar-04 21
BorgWarner	BWA	64	69	

Quarterly	EPS(\$)	% Chg	Sales(\$Mil)	% Chg
Jun-02	0.21	-9%	30.1	+74%
Sep-02	0.26	+3%	30.6	+58%
Dec-02	0.14	-50%	34.0	+34%
Mar-03	0.29	+61%	39.6	+51%
Jun-03	0.29	+38%	40.0	+33%
Sep-03	0.32	+23%	48.0	+57%
Dec-03	▲0.24	+71%	56.1	+65%
Mar-04	▲0.36	+24%	81.6	+106%



# Excessive Extension



Research shows that stocks tend to top if their price jumps too far above the 50 or 200 day moving average.

Stocks can be sold if the extension above a key averages accelerate into very high ground

50-day/200-day Selling Guide from Model Book Stats - CAN SLIM Certification Course

	SMALL CAP LEADERS		LARGE CAP LEADERS	
	Max Above 50-day	Max Above 200-day	Max Above 50-day	Max Above 200-day
<b>Average</b>	<b>51%</b>	<b>111%</b>	<b>23%</b>	<b>52%</b>
<b>Median</b>	<b>47%</b>	<b>107%</b>	<b>22%</b>	<b>47%</b>
<b>Highest</b>	<b>146%</b>	<b>442%</b>	<b>41%</b>	<b>121%</b>
<b>Top 10%</b>	<b>79%</b>	<b>189%</b>	<b>29%</b>	<b>68%</b>

Option On CB/PA/PH

Market Capitalization \$645.00 Million

50-Day Avg Volume 362,000

Short Interest 6.8 days - 4%

Shares in Float 20.0 Million

Off 52-Week High -25.0%

Shares Outstanding 21.5 Million

52-Week Hi-Lo \$40.00-\$17.54

HEADQUARTERS: UNION CITY, CA PHONE: 510-675-6500

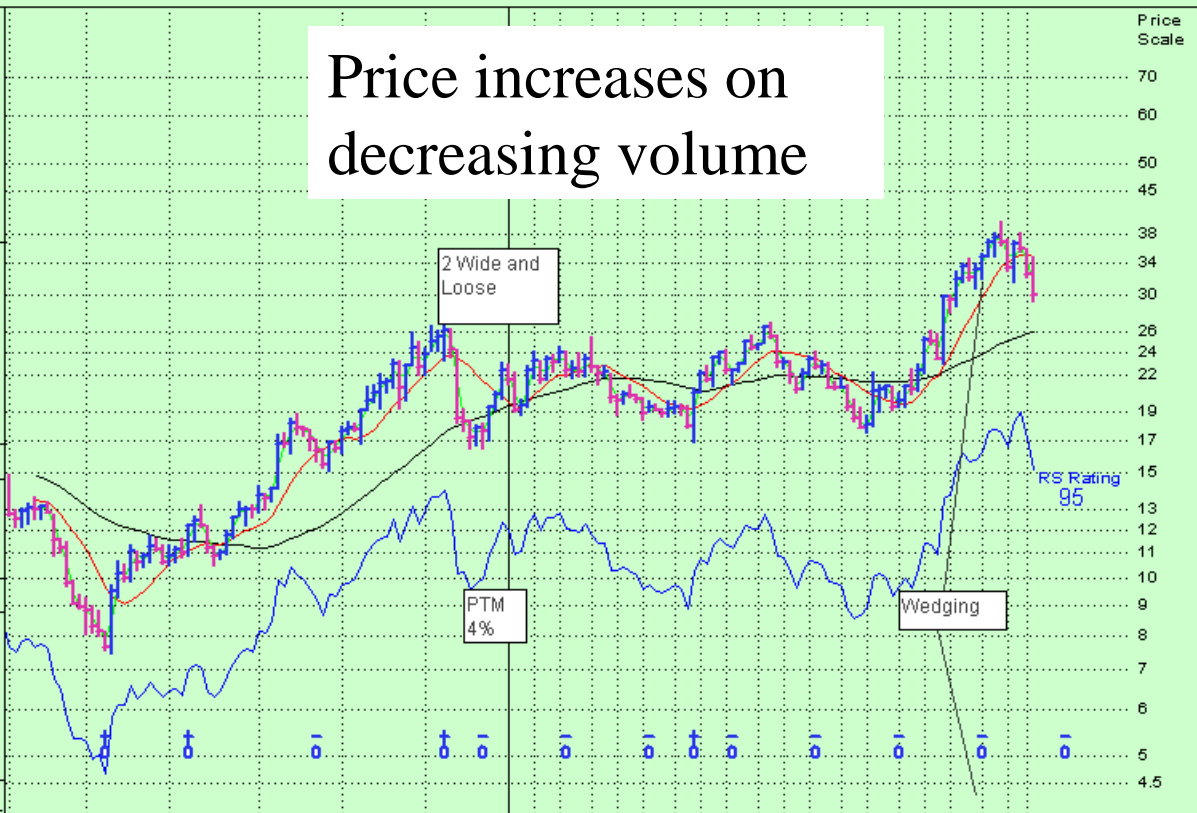
[www.abaxis.com](http://www.abaxis.com)

DEVELOPS PORTABLE BLOOD ANALYSIS SYSTEMS USED IN VETERINARY OR HUMAN PATIENT-CARE SETTINGS  
06/18/07 Robert Miller to retire as COO, effective June 29, 2007.

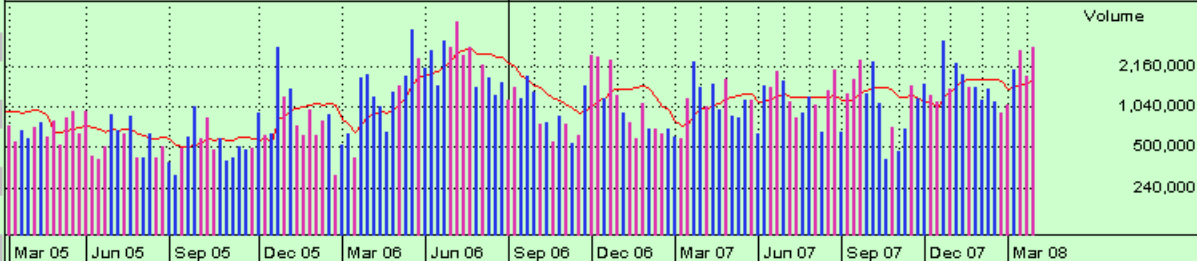
IPO 1/22/1992

Year	EPS	Price (\$)	EPS Rating	84
(Mar)	(\$)	High Low	Group RS Rating	97
2001	-0.03	6 2	SMR Rating	B
2002	0.02	6 2	Acc/Dis Rating	D-
2003	0.02	21 3	Composite Rating	96
2004	0.20	23 10	Timeliness Rating	B
2005	0.22	18 7	Sponsorship Rating	D
2006	0.35	26 16	EPS Growth Rate	55%
2007	0.46	40 16	Earnings Stability	49
2008	0.61	est. 33%	P/E Ratio	60 (4.0 X SP)
2009	0.84	est. 38%	5-Year P/E Range	33-121
Yield	NONE		Return on Equity	13%
ExDiv	N/A		Cash Flow	\$0.61
Book Value	X7.35		Debt	0%
Inventory T/O	6.84X		R & D	7.2%
U/D Vol Ratio	0.9		Alpha	0.20
New CEO	N/A		Beta	1.08
Ownership			Mgmt	7%
			Banks	4%
			Funds	19%
Top RS in Grp	Symbol	RS	EPS Rtg	No. of Funds
IntSurg	ISRG	99	99	Mar-07 43
Cepheid	CPHD	99	37	Jun-07 50
ChnaMd	CMED	98	98	Sep-07 45
VentanaMd	VMSI	98	75	Dec-07 47
Visicu	EICU	98	57	

Price increases on decreasing volume



Quarterly	EPS(\$)	% Chg	Sales(\$Mil)	% Chg
Mar-06	0.11	+83%	19.8	+43%
Jun-06	0.11	+120%	20.4	+43%
Sep-06	0.10	-9%	21.0	+21%
Dec-06	0.13	+44%	22.0	+26%
Mar-07	0.13	+18%	22.8	+15%
Jun-07	0.14	+27%	22.9	+13%
Sep-07	0.13	+30%	25.2	+20%
Dec-07*	0.14	+8%	25.7	+17%

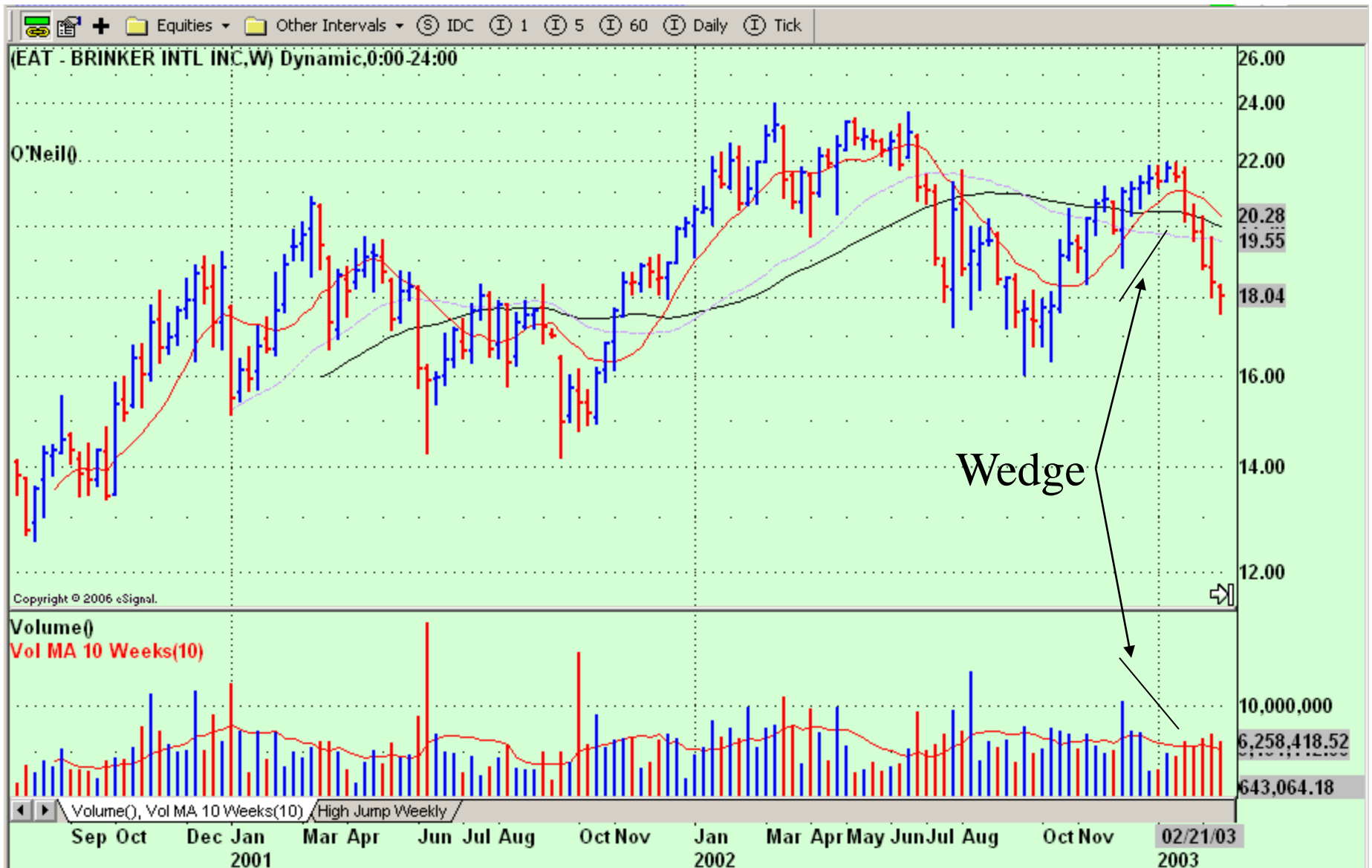


# Faulty Bases

- Less than the requisite minimum base length tends to fail
- Wide and Loose
  - Deeper than 30% correction
  - Jumpy weekly or daily price patterns
- Straight Up from the Bottom breakout after a big run
- Only one or two down weeks in a double bottom base is failure prone



# Wedging Volume



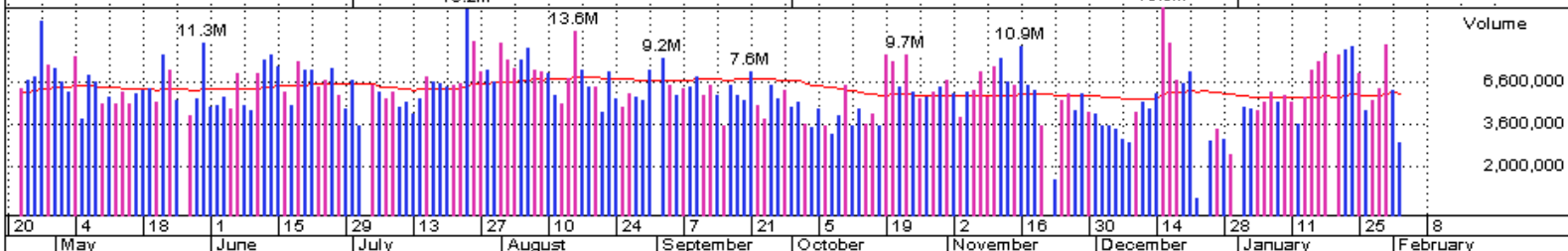
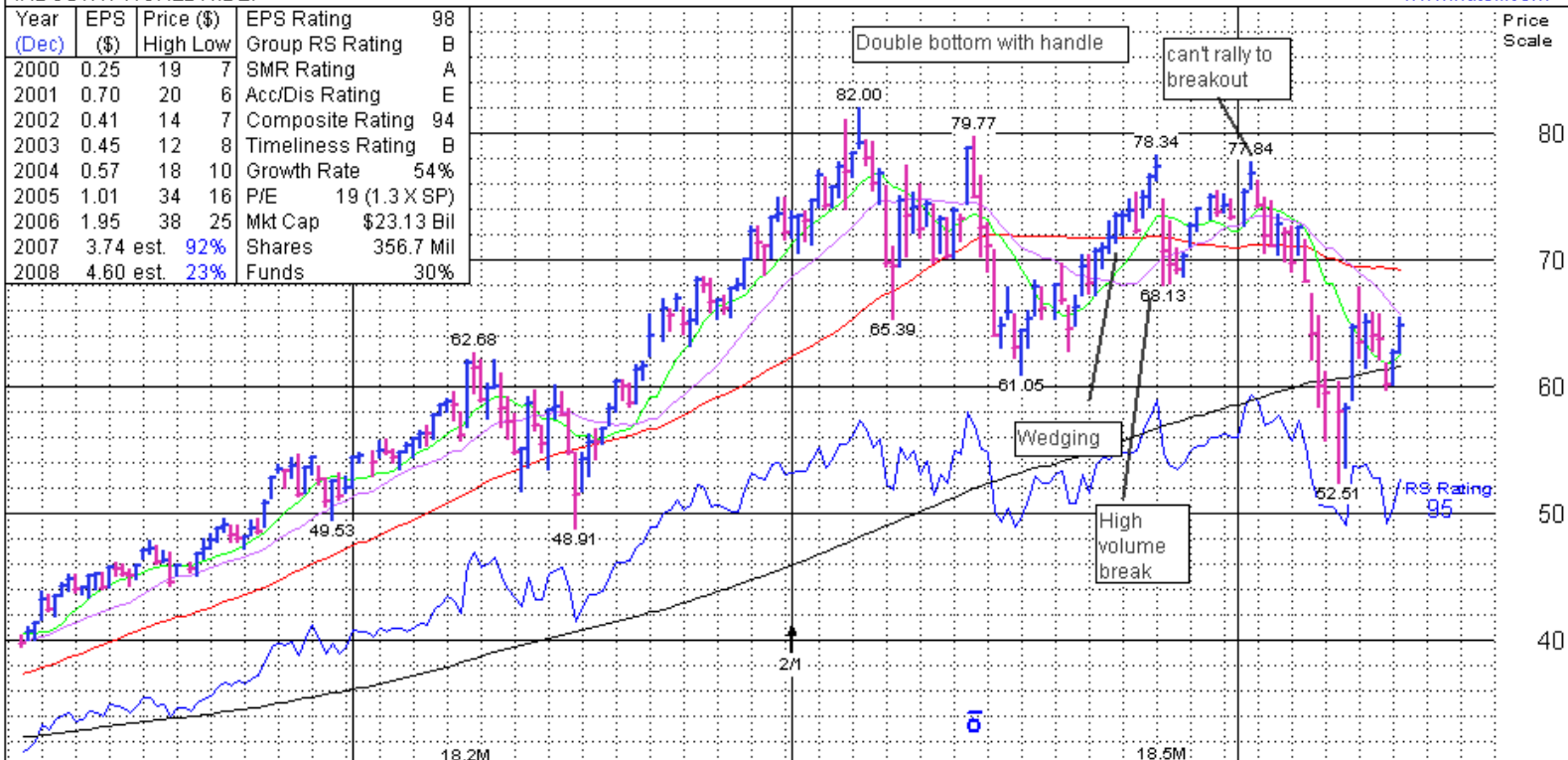
# NOV Faulty Double Bottom

National Oilwell Varco (NOV) NYSE Oilgas-machinery/equip Average Daily Volume 5,675,100 Volume 2,822,800 \$64.84 +2.15

ENGAGED IN THE MANUFACTURE AND SALE OF SYSTEMS, COMPONENTS, AND PRODUCTS TO THE OIL AND GAS INDUSTRY WORLDWIDE.

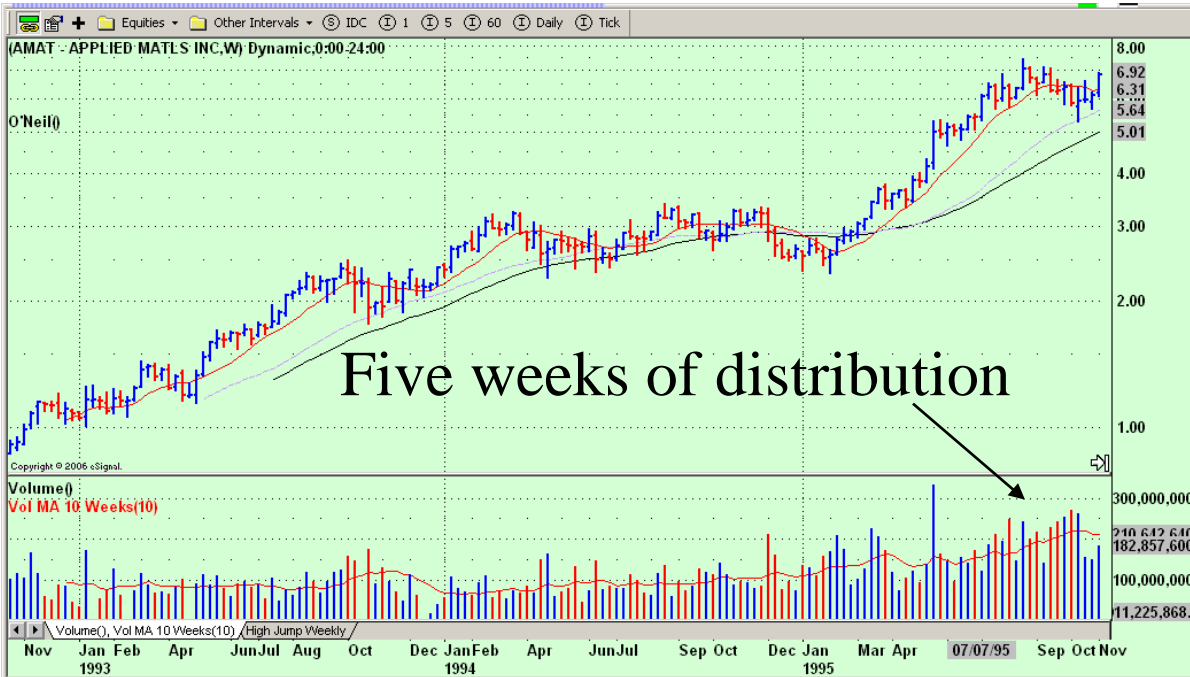
[www.natoil.com](http://www.natoil.com)

Year (Dec)	EPS (\$)	Price (\$)	High	Low	EPS Rating	98
2000	0.25	19	7		Group RS Rating	B
2001	0.70	20	6		SMR Rating	A
2002	0.41	14	7		Acc/Dis Rating	E
2003	0.45	12	8		Composite Rating	94
2004	0.57	18	10		Timeliness Rating	B
2005	1.01	34	16		Growth Rate	54%
2006	1.95	38	25		P/E	19 (1.3 X SP)
2007	3.74 est.	92%			Mkt Cap	\$23.13 Bil
2008	4.60 est.	23%			Shares	356.7 Mil
					Funds	30%



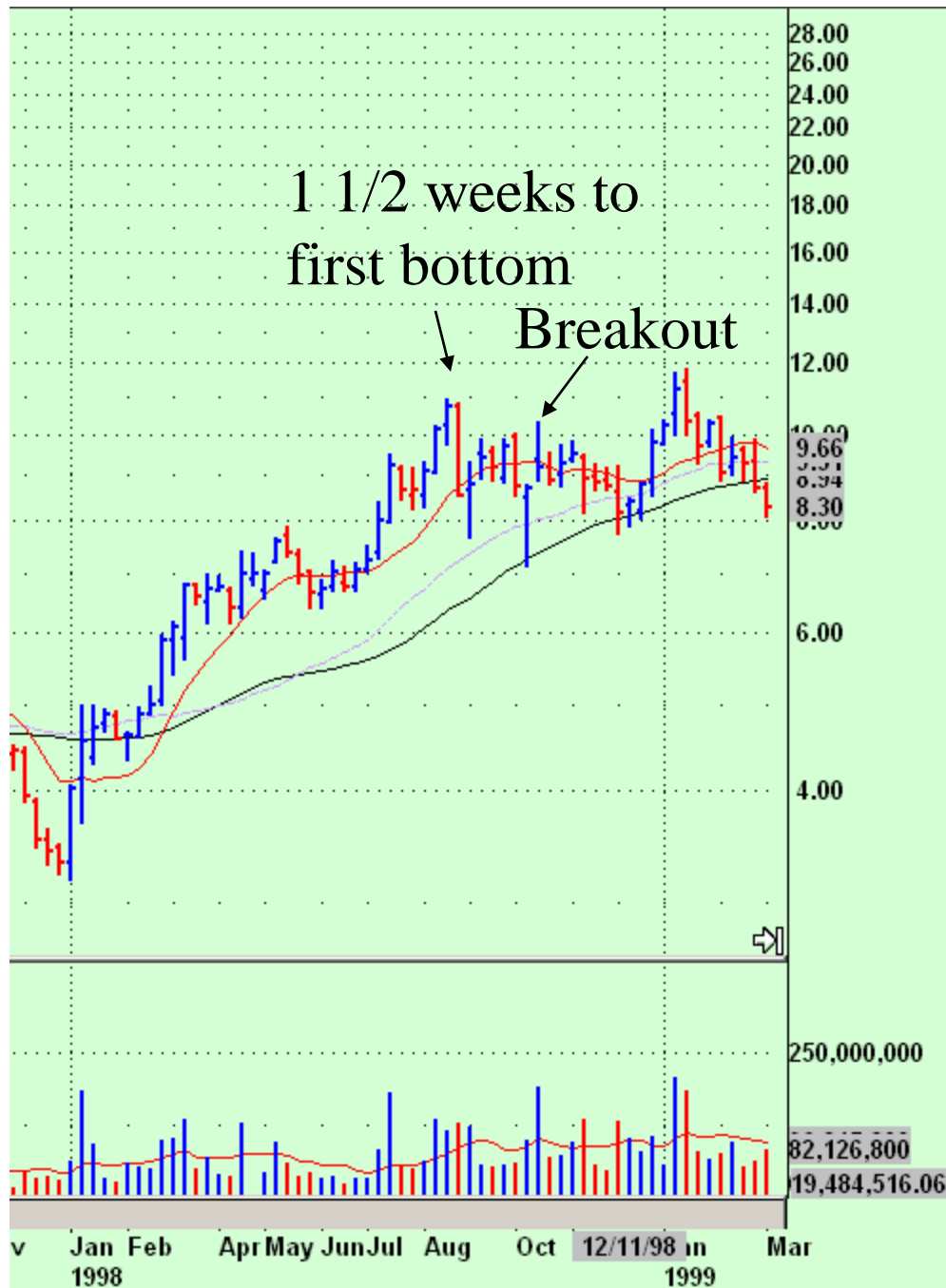
December 31, 2006			March 31, 2007			June 30, 2007			September 30, 2007			EPS Due 2/6*				
0.68	vs	0.32	+113%	0.78	vs	0.36	+117%	0.90	vs	0.42	+114%	1.02	vs	0.50	+104%	Earnings (\$)
2078.7	vs	1377.4	+51%	2165.7	vs	1511.8	+43%	2384.9	vs	1657.4	+44%	2579.5	vs	1777.9	+45%	Sales (\$Mil)
N/A			13 -- 17	N/A			11 -- 16	N/A			13 -- 19	N/A			14 -- 22	Div--P/E Range

# Distribution in Base



- Count the number of high volume down weeks and compare to the number of high volume up weeks in a base
- The number of tall blue bars should outnumber the number of tall red bars

# AAPL Too Little Time on the Left



Two weeks or less building the left side of a base is too short

# ISRG (Large Cap) climax run ends with 107% extension above the 200-day moving average



# NDAQ Climax Top

Nasdaq Stock Market Inc (NDAQ) NMS Financial Services-misc

Option On CB/AM/P A/PH  
Short Interest 2.7 days - 0%

Market Capitalization \$4.55 Billion  
Shares in Float 90.7 Million  
Shares Outstanding 112.0 Million

Volume 15,897,000 \$40.63 +4.06  
50-Day Avg Volume 2,625,000  
Off 52-Week High -13.1%  
52-Week Hi-Lo \$46.75-\$23.91

HEADQUARTERS: NEW YORK, NY PHONE: 212-401-8700

[www.nasdaq.com](http://www.nasdaq.com)

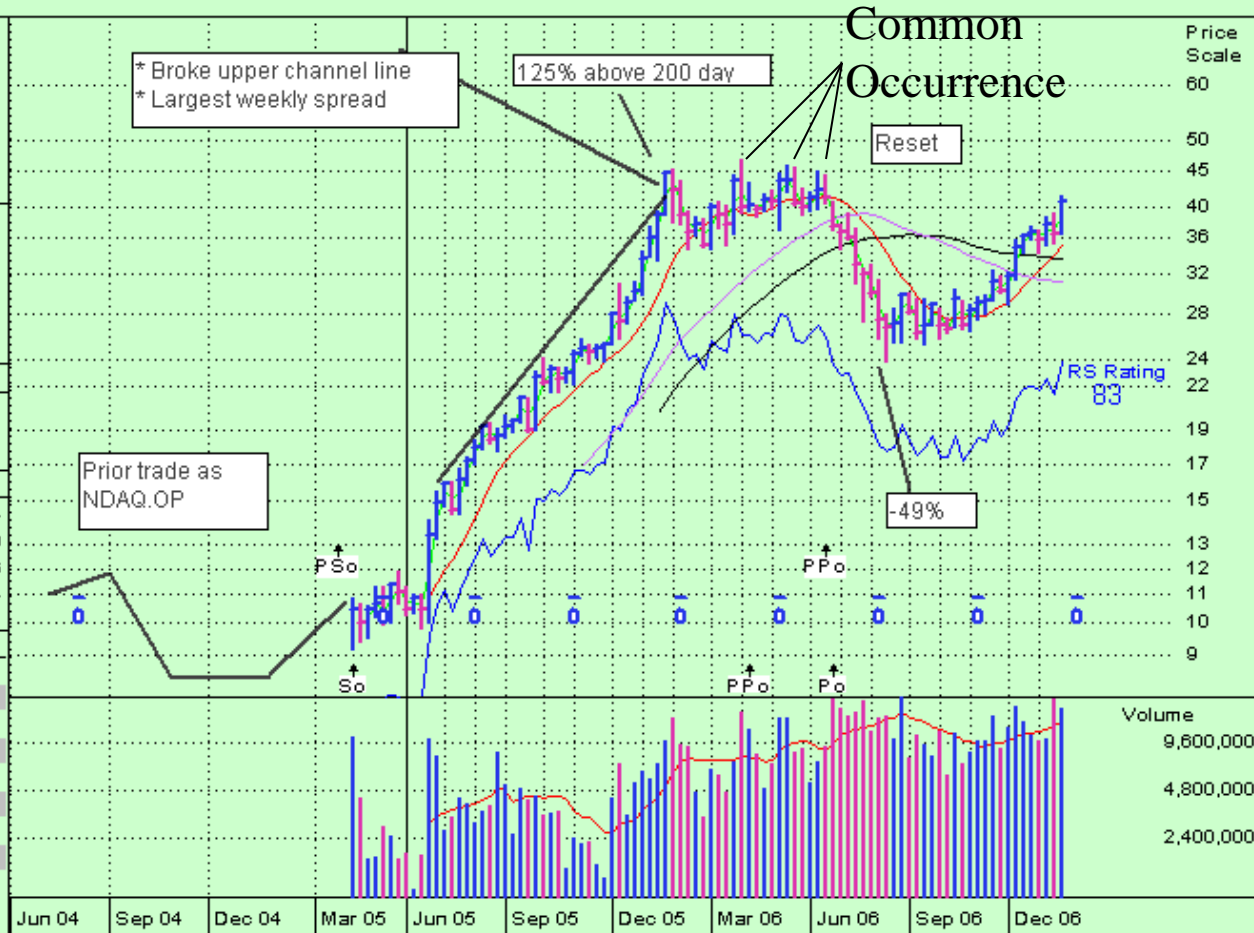
PROVIDES SECURITIES LISTING, TRADING AND INFORMATION PRODUCTS AND SERVICES THROUGH THE NASDAQ STOCK MARKET.  
10/19/06 Expects 2006 net income of \$89 to \$92 mil, including charges, above previous guidance.

Year (Dec)	EPS (\$)	Price (\$)	High	Low
1999				
2000	1.11			
2001	0.35			
2002	0.66			
2003	0.13 ▲			
2004	0.39			
2005	0.65 ▲	45	9	
2006	0.76	est. 17%		
2007	1.54	est. 103%		

Yield	NONE
ExDiv	N/A
Book Value	X17.99
Inventory T/O	N/A
U/D Vol Ratio	2.1
NewCEO	N/A
EPS Rating	65
Group RS Rating	98
SMR Rating	A
Acc/Dis Rating	A+
Composite Rating	97
Timeliness Rating	C
Sponsorship Rating	C
EPS Growth Rate	14%
Earnings Stability	62
P/E Ratio	54 (3.4 X SP)
5-Year P/E Range	16-69
Return on Equity	35%
Cash Flow	\$1.70
Debt	468%
R & D	N/A
Alpha	-0.07
Beta	2.51
Ownership	
Mgmt	3%
Banks	4%
Funds	25%

Top RS in Grp	Symbol	RS	EPS Rtg	No. of Funds
IntontlEx	ICE	99	96	Sep-05 74
MasterCd	MA	99	34	Dec-05 109
Ezcorp Cl A	EZPW	98	99	Mar-06 146
FstMarbl	FMD	98	99	Jun-06 134
DollarFin	DLLR	98	82	

Quarterly	EPS(\$)	% Chg	Sales(\$Mil)	% Chg
Dec-04	0.15	+275%	168.1	+22%
Mar-05	▲0.13	+44%	180.2	+40%
Jun-05	0.21	+250%	219.7	+83%
Sep-05	0.16	+78%	220.5	+78%
Dec-05	▲0.15	0%	259.6	+54%
Mar-06	▲0.16	+23%	396.5	+120%
Jun-06	0.22	+5%	411.0	+87%
Sep-06	0.22	+38%	402.9	+83%

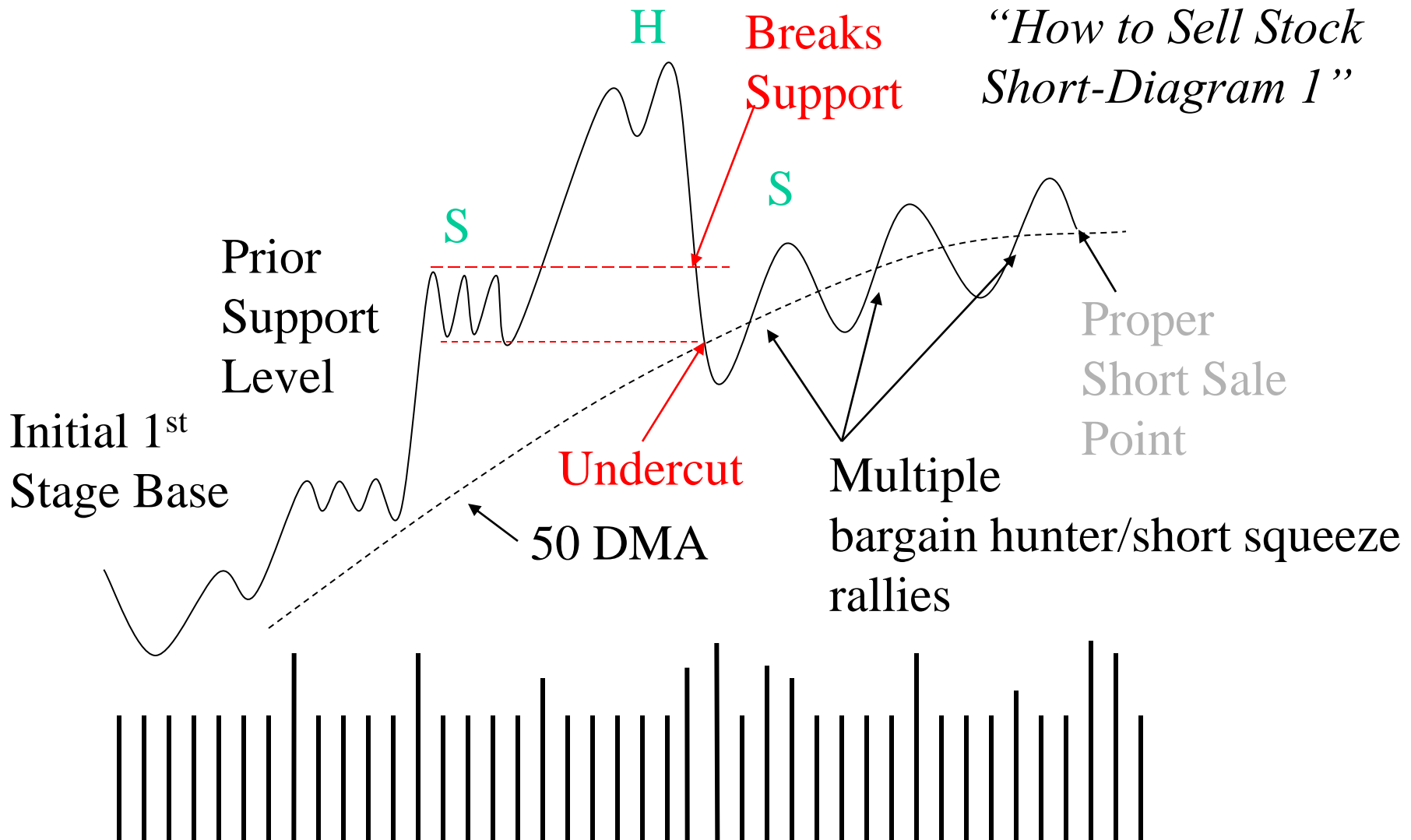


# Question

If many of the available shares are held short,  
What does that make the holder of those short  
shares?

What has to happen to allow a stock to really  
drop?

# Head and Shoulders Top





# Dynamic Materials Top

Dynamic Materials Corp (BOOM) NMS Metal Proc\_Fabrication

Volume 688,000 \$30.20 +0.14

Option On CB/P A/P H @

Market Capitalization \$360.00 Million

50-Day Avg Volume 524,900

Short Interest 4.4 days - 3%

Shares in Float 11.5 Million

Off 52-Week High -30.1%

Shares Outstanding 11.9 Million

52-Week Hi-Lo \$43.20-\$22.43

HEADQUARTERS: BOULDER, CO PHONE: 303-665-5700

[www.dynamicmaterials.com](http://www.dynamicmaterials.com)

MANUFACTURES EXPLOSION-WELDED CLAD METAL PLATES USED IN THE CONSTRUCTION OF PRESSURE VESSELS AND HEAT EXCHANGERS

05/22/06 Named Dean Allen Chrmn and Pres.

Year (Dec)	EPS (\$)	Price (\$)	High	Low
1999	-0.48	3	1	
2000	-0.20	1	1	
2001	0.27	2	1	
2002	0.31	2	1	
2003	0.12	2	1	
2004	0.41	8	1	
2005	0.86	32	4	
2006	1.46	est. 70%		
2007	1.73	est. 18%		

Yield	0.5%
ExDiv	3/8/06
Book Value	X10.32
Inventory T/O	7.98X
U/D Vol Ratio	0.6
NewCEO	N/A

EPS Rating	88
Group RS Rating	48
SMR Rating	A
Acc/Dis Rating	C-
Composite Rating	60
Timeliness Rating	C
Sponsorship Rating	D
EPS Growth Rate	39%
Earnings Stability	69
P/E Ratio	23 (1.4 X SP)
5-Year P/E Range	3-38
Return on Equity	38%
Cash Flow	\$1.02

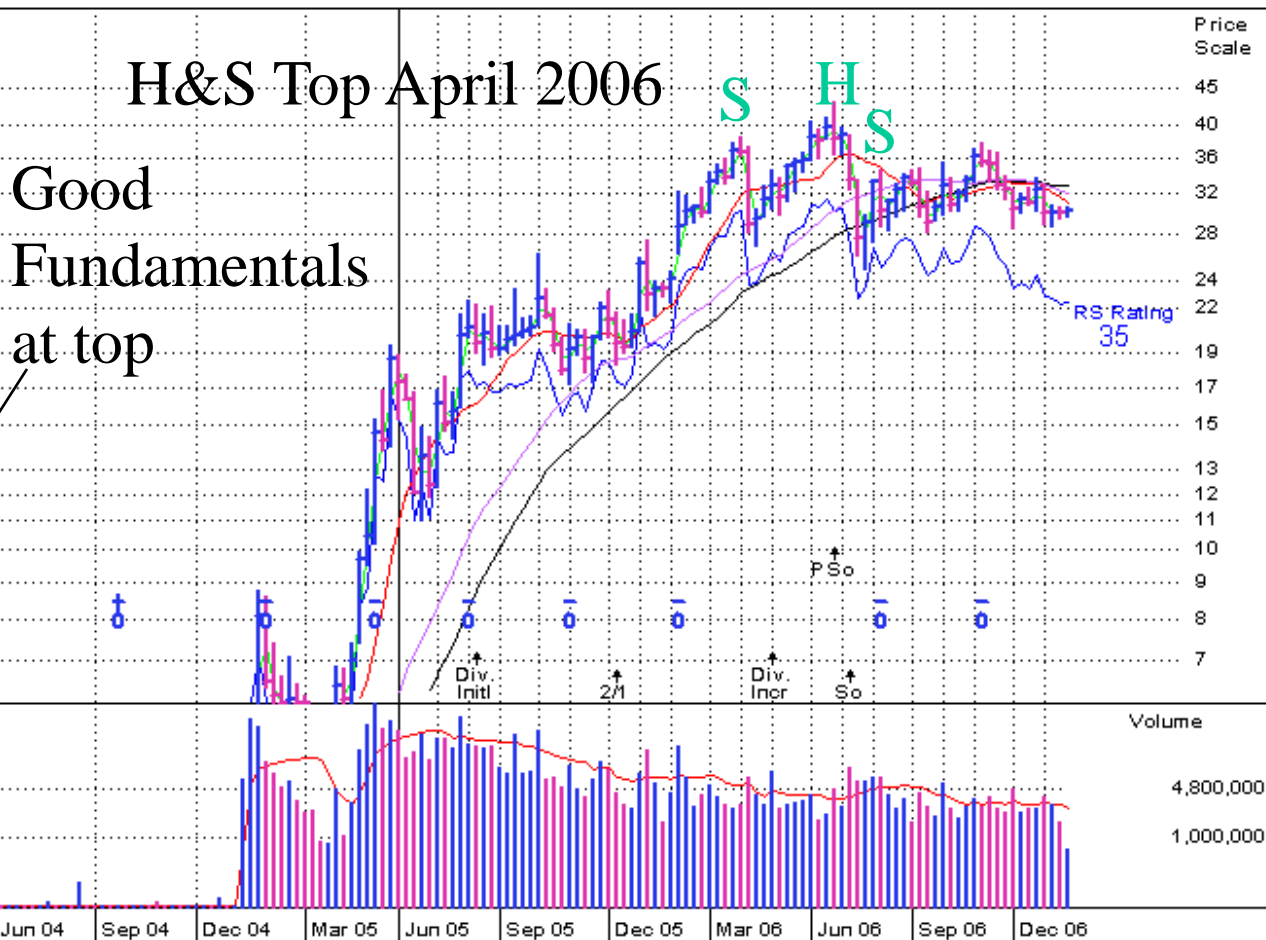
Debt	6%	Ownership	
R & D	N/A	Mgmt	4%
Alpha	0.07	Banks	5%
Beta	1.99	Funds	21%

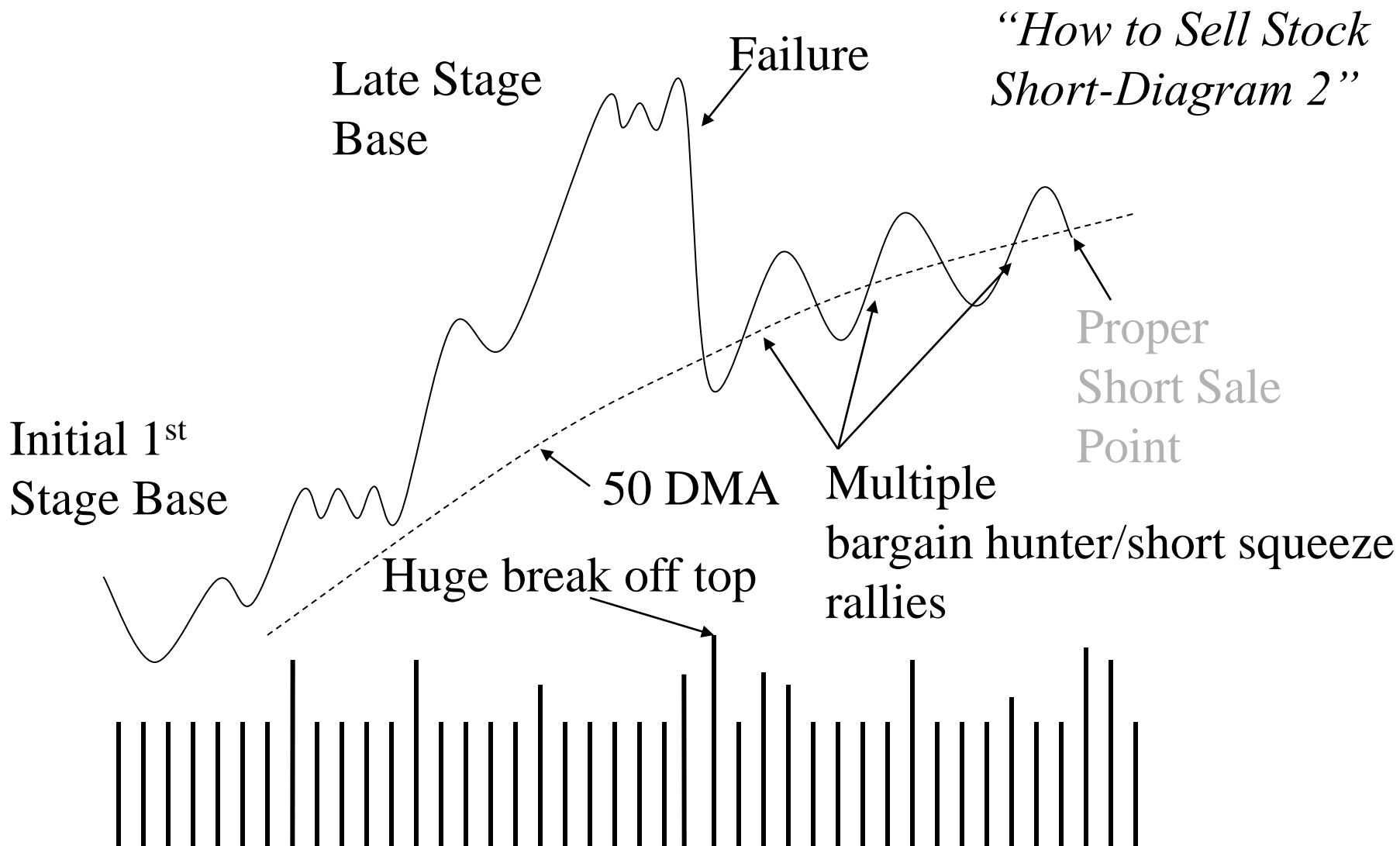
Top RS in Grp	Symbol	RS	EPS Rtg	No. of Funds
BrushEMat	BW	98	60	Sep-05 19
Maxco	MAXC	94	23	Dec-05 25
Synalloy	SYNL	93	68	Mar-06 32
RBCBear	ROLL	93	64	Jun-06 54
Valmont	VMI	92	85	

Quarterly	EPS(\$)	% Chg	Sales(\$M)	% Chg
Dec-04	0.20	#+999%	20.0	+125%
Mar-05	0.14	+250%	17.5	+72%
Jun-05	0.18	+200%	18.4	+53%
Sep-05	0.26	+136%	20.2	+68%
Dec-05	0.28	+40%	23.2	+16%
Mar-06	0.34	+143%	25.2	+44%
Jun-06	0.41	+128%	27.8	+51%
Sep-06	0.30	+15%	24.9	+23%



# Late Stage Base Failure

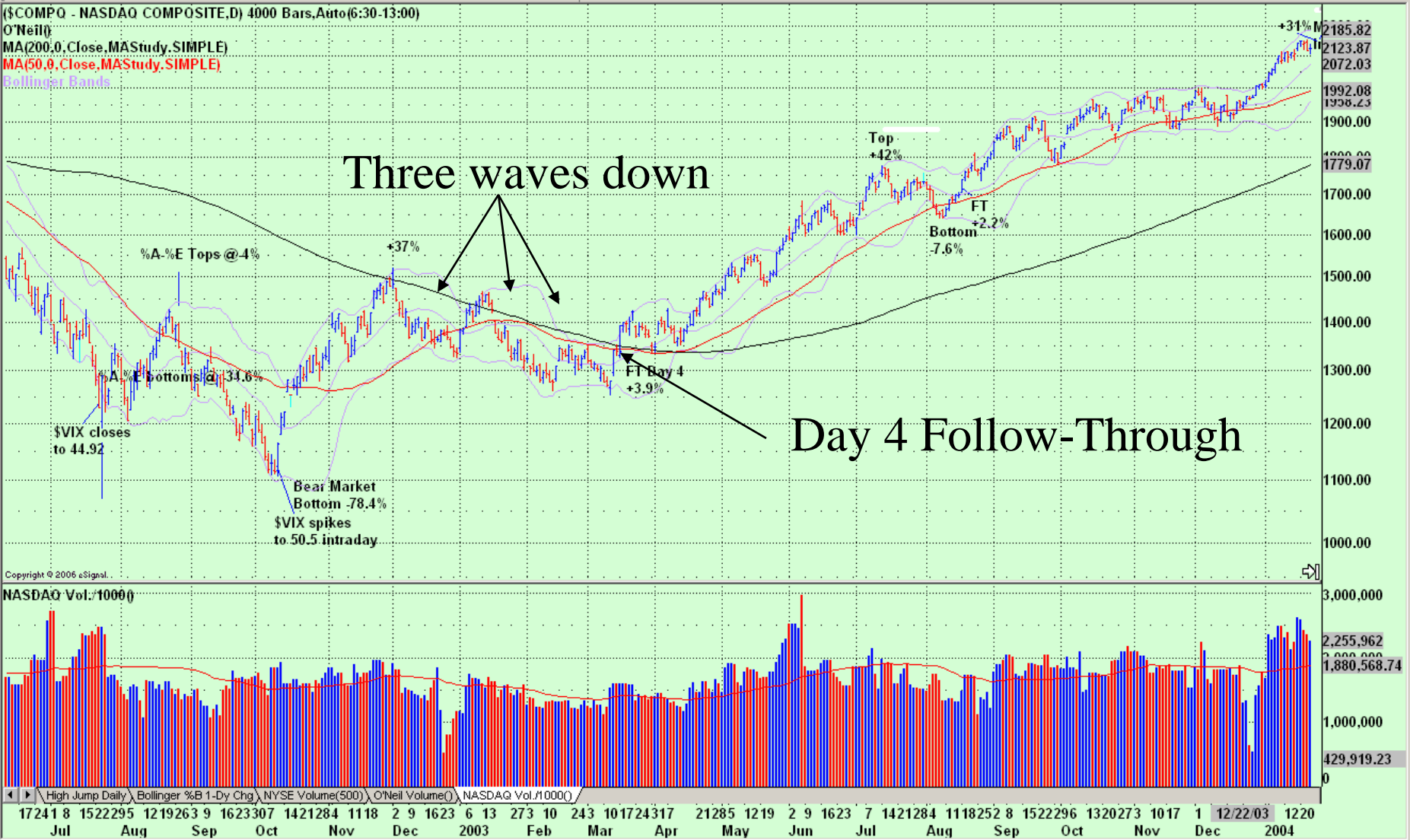


# Essential Elements of Market Analysis

- Action of leading stocks
  - Breakouts vs. Failures
  - Are leaders showing climax runs and other topping patterns
- Action of the major indices
  - Distribution count over the prior 20-25 days
- Large Cap vs. Small Cap performance
- Value vs. Growth performance
  
- Psychological market indicators



# 2003 Bull Market Start



# When to cover your short positions

- Keep stops losses tighter and no more than double your expected profit
- Take profits often
  - 20-25%
- General market strength
  - Cover all short position when the general market signals a follow-through day
  - VIX surges 40%+
- Bottom of prior base

# Recommended Study

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

How to Make Money Selling Stocks Short

Even if you never plan to sell short

Any of the IBD taught seminars

Any Joe Burns seminar

How I made \$2M in the Stock Market by Nicolas  
Darvas

If you want this presentation in electronic form send an email request to  
[mike@paxsen.com](mailto:mike@paxsen.com)