

Explosive Stocks Cheat Sheet

The best stocks to invest in are those with “cheap optionality”. These stocks allow you to risk just a little, for downside that’s capped at zero, but upside that’s *unlimited*. Investing in these plays gives you a lucrative edge that’s much easier to exploit than any complicated options strategy.

To find these *Explosive Stocks* hiding across the marketplace, you need to focus on hunting for their key fundamental and technical factors. These stocks have usually been severely beaten down by investors but are now ready for a turnaround. Each one exhibits certain characteristics that alerts us to their potential.

Our team at Macro Ops has developed a set of “Explosive” metrics that clue us into the best optionality plays around the market. Use the cheat sheet below to help you take advantage of this highly profitable strategy:

Fundamental Factors

- **Priced Under \$15:** *Explosive Stocks* are the same stocks that eventually turn into momentum plays. But the key is to get into them before the momo traders do. Most momentum screens don’t scan for stocks under \$15, which means we need to look for opportunities below that level. Ideally our stock will appreciate considerably before the momo crowd picks up on it. That gives us the opportunity to start selling our position into the additional boost that comes from these traders. We also generally want companies with low market caps. It’s a lot easier for a \$100 million company to quickly 5x its market cap than it is for a \$1 billion company to grow to \$5B.
- **Annualized PE Run Rate Of 15 Or Less:** We want to identify value plays that have been driven into the ground by excessive negative sentiment. This is sentiment that may have been warranted in the past, but not anymore, as prices no longer consider the improving fundamentals of the company. It doesn’t matter what the stated PE is right now. You want to model future annualized earnings yourself and find equities that are being priced incorrectly according to your estimate.
- **Low Float:** Conventional wisdom says that you want to buy stocks with sizable floats. But conventional wisdom only gets you conventional results. We want stocks that have small floats. The float is just a company’s total outstanding shares minus closely held

shares and restricted stock. Stocks with small floats mean there's little supply, so when demand picks up, they have the tendency to appreciate quickly.

- **Insider Buying:** This is an important one. The best *Explosive Stocks* all have lots of insider buying. No matter how much research you do, you'll never know as much as the people within the company. If they're buying substantial amounts of stock relative to their pay and the stock's float, then that's a clear signal that they know something the market doesn't. Another thing we've found with the best plays is that management tends to be very conservative. They don't hype their earnings or give overly optimistic projections about the company's future. They just give the numbers straight, with realistic estimates — they don't feel the need to pimp their stock.
- **Easy Comps:** In the theme of finding turnaround plays, we want stocks that have low hurdles to improvement. So stocks with poor or negative EPS in previous quarters are great. Improved earnings will look that much better when viewed on a QoQ and YoY basis. Momentum traders will see the large QoQ% increases and jump in, snatching up the limited float and sending prices screaming higher.
- **Operating Leverage And Margins:** Operating leverage is how much a company's earnings will increase per each dollar of additional revenue. Companies with high operating leverage tend to have low levels of variable costs relative to fixed costs. A company whose costs are primarily fixed will see greater margin expansion per revenue growth. This equals faster earnings growth.
- **Increasing Backlog:** A lot of companies will include their backlog figure in their earnings release. The best *Explosive Stocks* are usually from companies that have rapidly increasing backlogs. A backlog is just the amount of future business a company has under contract which it hasn't executed on yet. Growing backlogs are a sign that business is picking up.

Technical Factors

- **Base Breakout:** The best *Explosive Stocks* have been dead in the water a long time. They've been forgotten, have little analyst coverage, and have just been doing a whole lot of nothing. These long basing periods signal that all active and potential sellers are out of the picture. At this point the stock is only being held by long-term steady hands. There should be low volume during this period. We want to buy right as the stock breaks out of this consolidation, preferably on high volume. A breakout on high volume means the stock is starting to draw some attention. The longer the basing period, the longer the stock tends to run. These long basing periods also offer a natural risk point that clearly signals when a trade is wrong.

- **Weekly Close Above 25-Week Moving Average:** Why 25? No real reason, it could be 30 or 20. We just find that the 25 WMA tends to be a good support/resistance level for stocks that have been basing for a long period. We want to see a strong breakout on a weekly close above these levels. You primarily want to screen for stocks on the weekly timeframe. The dailies contain way too much noise. It's the weeklies that signal significant moves.
- **Volume Expansion:** We want to see continued volume expansion from the time of the basing period, to the breakout, and also as the stock runs higher. Increasing volume means more interest. More fish are coming to feed. This is the fuel that causes *Explosive Stocks* to go parabolic.
- **High Angle Trend:** The goal with *Explosive Stocks* is to make the most amount of money in the shortest amount of time. This means we want the stock to follow a high-angle trend path once it breaks out of its base. The best plays don't have weekly closes below their initial trend path once established. When they do, that's usually a good time to look at selling the stock.

With this basic checklist you have the ability to completely transform your portfolio returns. If you have any questions or need any help, don't be shy... just email us at alex@macro-ops.com .

Good luck out there!