Jesse Stine's "Superstocks" Ops Notes

Jesse Stine does a thorough job explaining the investment strategy that minted him millions in *Insider Buy Superstocks: The Super Laws of How I Turned $46K into $6.8 Million (14,972%) in 28 Months*.

You can think of the Superstocks strategy as an advanced, more profitable version of William O'Neil's CAN SLIM strategy. (O'Neil is a Market Wizard and founder of Investor's Business Daily or IBD.)

Both strategies focus on growth/momentum equity plays, but Stein builds on what is now the very common IBD strategy. Instead of buying IBD style breakouts that tend to fail due to their commonality, Stein buys long before the breakout. Instead of waiting until a stock is above $15 to invest as IBD disciples will do, he'll jump in when it's trading at $4.

Stein's goal is to get into these stocks before they're discovered by the rest of the momentum community (including IBD'ers). This ensures that he captures large gains well before other traders push prices even higher.

Stein devotes a large part of his book to developing the right habits in trading. From thinking for yourself to waiting for the fat pitch, you'll recognize a lot of his ideas from the Market Wizards he learned them from. It's all solid material. It also provides Stein with sufficient credibility to extinguish much of the reader's skepticism going into his corny-sounding Superstock strategy. This section is well worth the read, but we won't focus on it in these *Ops Notes*. Except for one part that is… as Stein explains:

> *"The importance of a successful mentor or community of successful traders cannot be understated. If you want to be the best, you simply must train with the best. To achieve investing success, you simply must—you simply have to—do everything in your power to put your ego aside and work with people who are better traders than you are."*

Good thing you're in the Hub eh? Ha…

The following is a detailed outline of the meat of the book that explains how to find and trade Superstocks:

8 Technical Superlaws (Pg. 79)

The Superstocks strategy requires looking at charts first. And then fundamentals Remember to always use the **weekly timeframe** when looking at charts as well. Smart money like institutions base their buy and sell decisions off the weekly chart, so you should too. This is the timeframe used to spot the biggest winners.

The 5 Strict Technical Requirements

1. **Strong Base Breakout**
    a. The biggest winners breakout from the longest bases
        i. Forming a base involves trading in a narrow vertical range for an extended period of time
    b. The base should have low volume
    c. Several months of basing time is preferable
    d. Long bases weed out emotionally charged short-term traders until only the long-term fundy shareholders who won't sell remain

Courtesy of Stockcharts.com

2. **Breakout Above 30-week Moving Average**
    a. Price should break out above the 30 week moving average (wma) and stay above it
    b. If it doesn't, the 30 wma could become a resistance level as the stock rises

3. **Volume Expansion**
    a. You should see a huge volume explosion on the weekly breakout bars compared to the basing period

   b. Volume typically expands 500% to 5000% and will stay elevated for months

4. **High Angle Of Attack**
   a. Price should rise in a 45 degree angle from its base

5. **Under $15**
   a. The sweet spot for the biggest winners are stocks priced between $4 - $10
   b. Many stocks become marginable around $4 or $5. Bigger institutions can't invest until this happens. Getting in at a lower price becomes lucrative because large funds tend to flow into the stock once it becomes marginable, boosting the share price.
      i. But be careful investing in prices that are *too* low because it usually come with risks. The company could actually be trash with negative cash flows and shady accounting.

3 Other "Nice To Have" Technical Factors

1. **Nice Clean Chart**
   a. Some small caps are too volatile. They can increase 5x and drop right back down, all within a few weeks. It's best to avoid those.
   b. Smooth and orderly upward moves are ideal. Large spikes higher work as long as there's consolidation after the spike and the stock moves higher yet again afterwards.
   c. Orderly moves downward are ideal as well. They allow large shareholders time and volume to exit their positions. You don't want to see 30% drops in one day. This kind of action traps shareholders. When the stock finally moves higher again, these guys will start to sell and in turn kill the stock's momentum.
   d. Coming out of a market bottom, it's better to buy stocks that sold off in a steady manner than to buy stocks that held up during the correction. The stocks that held up during the correction will underperform going forward.

2. **Prior Momentum / Prior Superstock**
   a. Superstocks that crash can rally once again after forming a long-term base. Don't take them off your watchlist.
   b. Momo traders love to jump back into these stocks when they get hot again. The momo crowd can push share prices up very rapidly.

3. **Does the stock continue to act like a Superstock? Does it follow the magic line?**
   a. The "Magic Line" is the moving average a particular stock adheres to. Price will hit this line and bounce higher

        i. Stocks may trade below this line in any particular week, but you want to see price close above the line by week's end
    b. The 10 week simple moving average is the magic line for most stocks
    c. But each stock has its own moving average it adheres to. It's worth the trial and error effort to figure out which line is magic.
    d. The best stocks will hit their magic line and then make new highs 4-6 times before their run is over.

12 Fundamental Requirements (Pg. 88)

Once a stock meets the technical requirements, it's time to dive into the fundies. Keep in mind a stock doesn't have to meet every one of these criteria. But the more it meets, the better.

1. **Earnings Winner**
    a. Consistent and solid quarterly revenue and EPS over the past few quarters. You do not want to see these numbers jumping up and down quarter to quarter.
    b. Need revenue and/or EPS in the most recent quarter to jump significantly higher than previous quarters
        i. No real standard increase (i.e. 20%) over previous quarter necessary
        ii. EPS a far more important metric than revenue when evaluating the stock
    c. The first time earnings jump, many investors believe it's just a one-time event. They don't bid up the price. This discrepancy gives you a low-risk entry point before the stock takes off.

2. **Sustainable Earnings**
    a. Research to see if this "one-time" earnings jump is sustainable
    b. Questions to ask yourself to help determine sustainability:
        i. Does the company have a new product?
        ii. Did they start a sustainable cost cutting / profitability initiative?
        iii. New customers?
        iv. Discontinuation of an unprofitable division?
        v. Industry-wide catalyst boosting sales/profitability?
        vi. Merger where earnings from the other company are hitting the bottom line?
    c. The goal is to figure out if the catalyst will continue, or even better, if it will strengthen
    d. Go through the company's filings to see what management says about the sustainability of the changes
        i. Quarterly reports (10q or 10k)
        ii. Earnings call transcripts (Seeking Alpha good source for these)

1. The Q&A section with analysts is a great place to find *key* off-the-cuff responses from the CEO

iii. Call the company and speak to a C-level executive to squeeze out non-public info. (This works because the company is usually very small.) Few questions to ask:
   1. How is the company's backlog progressing?
   2. Is the revenue increase unique to the company or industry wide?
   3. Any reason for margins to decline in the future?
   4. At the end, be blunt and ask if the earnings change is sustainable.

3. **Annualized PE of 10 or Less (Undervalued = Immense Opportunity)**
   a. Entering a growth stock at such a low valuation greatly increases your risk/reward ratio

4. **Sequential Improvement**
   a. Revenue/EPS should be increasing every quarter
   b. Investors only feel comfortable bidding up a stock's price after seeing a few quarters (2-3) of earnings coming it at higher levels
   c. *"Let's assume that we have a $5 stock that has an initial breakout EPS of $0.25, and it subsequently reports $0.30 and $0.35 in the following 2 quarters. Due to momentum caused by the belief that results are now sustainable, within a few quarters, this "increasing multiple effect" could propel the stock from $5 to $42 based on a 30 PE multiple. Not bad."*

5. **Easy Earnings Comparisons**
   a. Next quarter's revenue/EPS should have easy comparisons (comps) to the year before
   b. *"If we believe the company will post $0.36 earnings per share next quarter vs. $0.03 in the year earlier period, the stage is set for the stock to become a huge gainer. $0.36 vs. $0.03 is going to make one heck of an earnings report headline. Investors will see "Stock X reports 1,200% earnings growth." A blockbuster earnings headline like this will spread throughout the investment community in a flash.*

6. **High Operating Leverage And Increasing Margins**
   a. Operating leverage is how much a company's net income will increase per dollar of additional revenue
   b. High operating leverage usually means a low level of variable costs relative to fixed costs
   c. As revenue begins to exceed fixed costs, net income explodes along with gross margins and EPS

d. Companies can show rapid profit growth with even a small increase in revenue if they have high operating leverage
e. The best scenario is soaring revenue and extremely low variable costs — this is when you'll see earnings explode

7. **Increasing Backlog**
    a. Backlog is the amount of future business a company has under contract, but hasn't completed yet
    b. Smaller companies don't always report forward guidance. You need to look at their backlog to determine how revenues will come in over the next few quarters

8. **Open Market Insider Buying**
    a. Insider buying signals future fundamental success for a company and give investors confidence to run share prices higher
    b. Multiple C-level executives or directors should be buying either during the stock's long-basing period or right after its breakout
        i. Insiders chasing prices higher is a good sign that something fundamentally big will happen soon
    c. The size of the insider purchases should be large in relation to the executive's salary.
    d. Good to see institutions or high net worth individuals filing 13d/g with SEC — they likely have positive insider information when taking those positions
    e. Things to look out for when evaluating insider buying:
        i. Token Buys — small purchases of stock by executives on the open market to instill confidence in the stock for investors
            1. If the stock price is stable and building a base, token buys could be a subtle signal to long-term shareholders to keep holding
            2. But if the company is in trouble, the buying is usually just an attempt to pump up share prices. This is common for stocks close to being delisted from major exchanges
        ii. Open market purchases at prices significantly different from current market prices. These *may* not be current.
        iii. Stock option buys that look like open market buys. Look at the filing closely.
        iv. Trust, family, and related party stock transfers. These often look like buy/sell transactions.
        v. Post-disaster buys: when the stock price plummets on bad news, executives may start buying because they see good *long-term* value. But intermediate term the stock will likely still fall. These purchases can also be a PR stunt. Don't be fooled by them.
        vi. Company stock buybacks are not a signal of future performance.

vii. There may be significant lag time between when insider buying occurs and when the stock price actually takes off. Let the charts be your guide.
viii. Don't buy a stock based off insider buying alone. This only works in combination with other superstock fundamentals.

9. Low Float And Low Market Cap

a. The float is the number of shares available in the open market
    i. Low floats require less money to push prices higher
b. Evaluate average daily volume in relation to the float
    i. A large number of shares coupled with low volume means that prices won't move until volume spikes
    ii. A low float with high volume will lead to huge swings to the upside
c. The best stocks have floats under 10 million shares, preferable 4 to 8 million
d. The best stocks usually have market caps under $100 million

10. "It" Factor / Supertheme

a. A Supertheme is a sector-wide or company-specific theme that attracts investors. Examples include new customers, partnerships, inventions, products, etc.
b. Goal is to find the theme before other investors. When they eventually *do* find it, they'll push prices up for you
c. Examples: internet .com bubble of 1999 and fiber optics in 2000

11. Conservative Management

a. Management should be modest regarding past statements and future projections. Need to see them under-promise and over-deliver, not the opposite.
b. Make sure management avoids fluff press releases. You should only see no-nonsense releases that significantly impact the company

12. Simple and Impressive Blockbuster Earning Release Headline

a. Reports from company should be simple. Revenue and earnings growth for the quarter should be easy to see.
b. Some companies release consolidated, complicated reports for the last 12 months. This is usually done to hide bad results.
c. Investors don't have patience for this and move on, killing any momentum

More Fundamental Superlaws

13. No Listed Options

a. No options means the stock is still undiscovered

14. Little or No Competition
   a. The company has a unique product or business model
   b. There are few alternatives to invest in when it comes to this particular theme or concept

15. Low Short Interest
   a. At its breakout a stock should have a low short interest
   b. Short positioning should be less than 20% of the stock's total outstanding shares
   c. Shorts usually have information other investors don't. A high short interest signals there's something wrong with company
   d. Don't bet on companies with high short interest thinking a rise in prices will force shorts to cover and launch prices higher

16. No "Highly Leveraged" Firms
   a. There should be little to no long-term debt and low debt expense
   b. Low fixed expenses and low interest expenses means higher operating leverage

17. Great Ticker
   a. Easy to remember tickers go viral and investors love to hop on them

18. Avoid Commodity Plays
   a. On top of market risk and company specific risk, commodity stocks throw commodity risk into the mix
   b. This is too many variables to manage and makes it more difficult to control risk

19. IBD 100
   a. Check the stock's IBD ratings. If the relative strength, earnings, and composite number are in the upper 90's, the stock will likely attract momo traders
   b. The goal is to get into these stocks before they show up on the IBD list so you can benefit from the price boost the IBD crowd provides

20. No Analyst Coverage
   a. No analyst coverage means no potential negative reports that'll hurt the share price
   b. Investors don't know how to value stocks without analysts. This can lead to much higher prices than otherwise.
   c. Prices will also jump when analysts finally initiate coverage. Banks start accumulating shares before they release their recommendation in order to benefit from the flood of investor money after coverage is initiated .
   d. Be careful with stocks after I-banks get involved with the business. It usually means the company has a deal with the I-bank to release a secondary share offering or something similar that hurts momentum.

21. Supertraders on Message Board

a. Check out the message boards for the stock on Yahoo Finance or InvestorVillage (or the Comm Center in the Hub)
b. These boards are usually less populated, and only contain people that know a lot about the company. These investors offer up their due-diligence which you can use. These boards are "boring" which is good.
c. You'll also begin to see the same users jumping on all the same stocks. That will tell you that you're doing something right.
d. Avoid the stocks that have message boards full of investors with varied opinions.

22. Insider Ownership

a. Management should have large positions in the company
b. It's a good sign if executives hold 20 to 30% of the shares
c. If you see that an executive recently sold most of his/her stake, don't invest

23. Long Trading History, Not An IPO

a. IPO's normally underperform.
b. The cash received from an IPO is usually invested in assets that are unproductive at first. This increases fixed costs and suppresses net income.
c. Expiring lock-up periods from an IPO mean millions of shares are ready to be sold on the market. This depresses the share price.
d. IPOs are also too new to have developed a trading personality. They don't have a 200 dma to trade off of. Many traders stay away.
e. Stocks usually need a year of trading before you should consider investing
f. Investment banks also pump IPO's with the best projections possible to get a high offering price. Things can only get worse from those lofty projections. That's why the stock is usually overpriced in the beginning and falls after it gets on the market.

24. Potential Move To Nasdaq

a. May be able to find some superstocks on the NASDAQ bulletin board exchange that are close to making their move to be listed on the NASDAQ
b. This will cause the price to explode when it's finally included.

6 Superlaws Of Low Risk Entries (Pg. 111)

The goal is to buy great stocks in an uptrend, after they've pulled back. This gives you limited downside with huge upside potential.

1. **Buy The "Magic Line"**

a. Super Stocks tend to make their biggest moves off their magic line (which in most cases is the 10 week moving average)
b. Institutions watch this line and manipulate their buying/selling along with the news to make prices bounce there

2. **Tight Range, Light Volume**
    a. At the end of a constructive multi-week base-building period, a superstock will tend to move in a very tight range with light volume compared to prior weeks.
    b. Volume should decline 30-50% from the peak volume seen during the stock's biggest advances
        i. Weekly volume bars may form a descending bullish channel. When volume breaks out from the channel, the stock price usually jumps higher as well.
    c. There should be multiple weekly closes right around the same price. This price often lines up with the magic line.

3. **Buy Early In A Stock's Advance**
    a. Get into a stock just after it's breakout from a long base

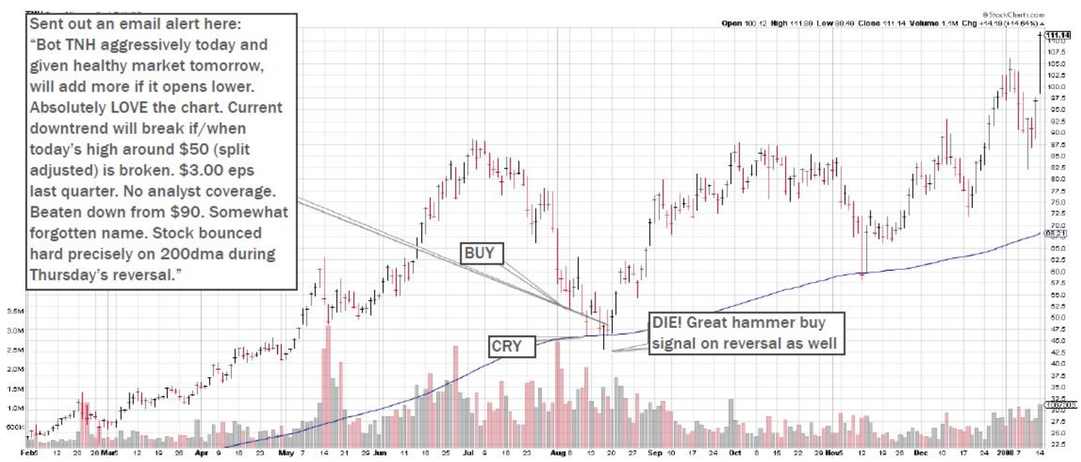
4. **Buy The Gap**
    a. The gap in price after an earnings surprise or other fundamental announcement serves as a support area
    b. Retraces to the gap support after an initial earnings surge are a good area to buy

5. **Wait 2-3 Weeks After An Earnings Gap**
    a. Can usually get a low-risk entry 2-3 weeks after a positive earnings announcement gap higher
    b. May either take the form of a retrace back to the breakout gap, or a nice sideways base — volume will decline in both instances

6. **Buy The Lower Trendline**
    a. Stocks trending higher create upper and lower trend lines to form a channel
    b. Many breakout traders wait for the upper trendline to break before buying
    c. You should be buying when things are about to hit the lower trendline to take advantage of the bounce
    d. But keep in mind that the more times price touches the lower trendline, the more likely that line will break. The best stocks touch the lower trendline 4 to 6 times before breaking it. If a stock repeatedly tests the lower trendline in a short period of time, it's more likely to break it and discontinue its run.

Other Low Risk Potential Entries

1. **Stine "BCD" Setup**
    a. "Buy, Cry, Die"
    b. Look for three lower lows within a short period of time (4-5 weeks) within a broader uptrend
        i. First low is where bottom pickers jump in and Buy
        ii. Second low is where these guys start hurting and Cry
        iii. Third low is where they sell in desperations or Die
    c. The third low is where you want to buy. Stocks usually rocket from there.



Courtesy of Stockcharts.com

2. **Lower Bollinger Band Re-Entry**
    a. A pullback below a stock's lower Bollinger Band followed by a daily close above that same band is a great entry

Courtesy of Stockcharts.com

3. **Dumber Friend Indicator**
    a. Use your emotional friend as a sentiment indicator. When he's selling, you buy.

Low Risk Moving Average Entries

1. **10 DMA**
    a. When a superstock is in transition, going higher very fast, it will consistently bounce off its 10 dma. These can be great entry points into a trend already underway.
    b. This is an even better entry if it coincides with a lower trendline

2. **20 DMA**
    a. Look at the 20 DMA in the same way as the 10 DMA, but only after the 10 DMA stops working

3. **50 DMA or 10 WMA Rising Into A Base**
    a. Safest entry point
    b. After massive runs, stocks will either rest in a base and wait for these MA's to catch up, or retrace back to them
    c. Combining the MA with a base as support gives you a great low-risk entry
    d. Watch out though. Many times a stock will trade 5-10% below the 50 dma for several days before bouncing. If it trades under for a week or two, it could be a dud.

4. **200 DMA and 20/30 WMA**
    a. You won't usually use these longer term MA's because superstocks are shorter-term plays. But if you're in the stock as a long-term play, these provide a great entry.

Position Sizing (Pg. 123)

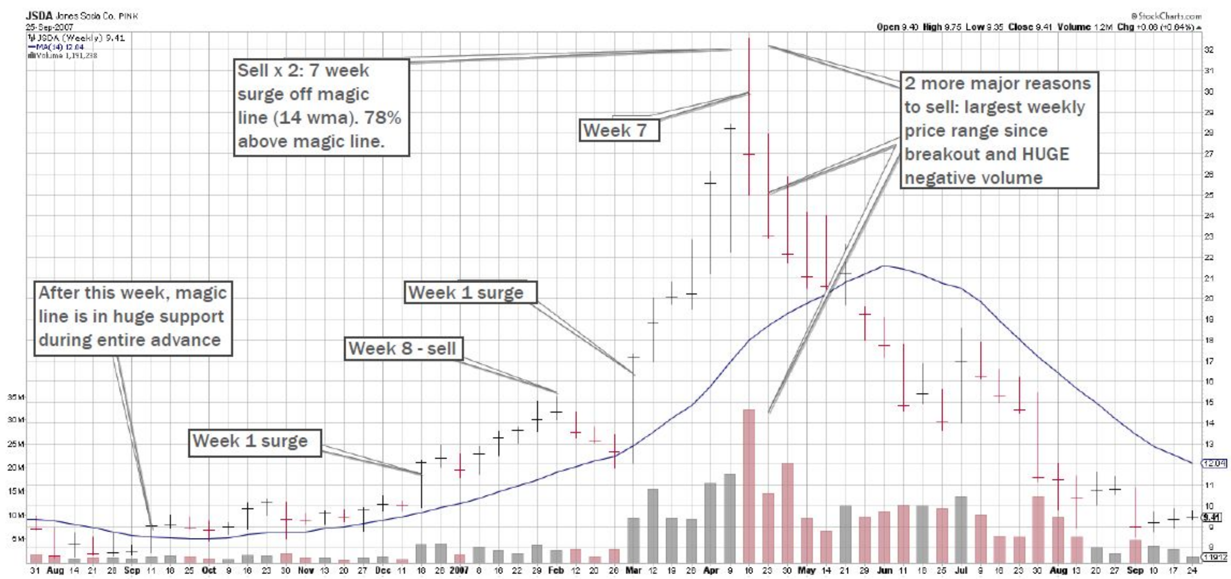
- Depends on your own risk tolerance
- Stein uses the Kelly Criterion — takes huge positions in single stocks (90% of portfolio)
- Portfolio concentration in a particular stock depends on:
    1. Whether or not other stocks are available with similar risk/reward
    2. How much capital is available, more capital means less exposure to each individual stock
    3. State of the market
    4. Extent of the edge in the stock — upside vs downside
- Alternative: Take a small portion of overall portfolio (5-10%) and open up a separate margin account to use for a rare "risky" Superstock
    - This allows you to test whether superstocks work for you without risking your entire account

Superlaws Of Selling (Pg. 128)

The best times to sell are at sentiment extremes, when your ego least wants you to sell. When public opinion is fully behind buying a stock you should start selling. Technical signals will tell you when to get out way before fundamental signals.

16 Super Laws Of Selling Technical Risk

1. **Time and A Large Deviation from 10 WMA or Magic Line**
    a. If the stock trades 60% above its magic line after the first six weeks of its initial breakout, you should sell and wait for the support to catch up
    b. After bouncing from a magic line, stocks usually hit intermediate peak 7-10 weeks later. This is a good place to exit.



Courtesy of Stockcharts.com

2. **9-15 Month Advance From Breakout**
    a. Many stocks collapse after 9 months have passed from their initial breakout

3. **Flattening Or Declining Magic Line After A Long Advance**
    a. Beyond 6 months, if a magic line flattens or starts to decline, you should look to sell
    b. Look for weekly closes below the Magic Line as well

4. **4 Surges Off Magic Line**
    a. Many stocks fail after their 4th or 5th surge off the magic line. When they begin failing they'll trade erratically around that line instead of bouncing. If a stock has trended higher for several months beforehand, it's time to sell.

5. **Parabolic Runs**
    a. Sell when the market goes into a frenzy
    b. The final day and week of these moves display the largest trading range and highest volume of the entire long-term advance
    c. Sell a stock that's trading above its upper trendline if:
        i. It had a huge daily price move that's much larger than previous moves
        ii. It's well above its 5 dma
        iii. If not 1 and 2, sell when it breaks the 5 dma

6. **Large Price Ranges**
    a. After an extended trend, a widening average daily range could signal short to intermediate buying capitulation.
    b. Volume will be above average in these instances.
    c. This is also important to monitor on the weekly timeframe.

7. **Falling Knife Bellow Lower Channel**
    a. If the stock suddenly falls a large percentage and cuts below its lower upward trending channel, sell it immediately

8. **Volatility When The Stock Is Extended**
    a. If the stock is way above its key moving average, and the daily trading range expands with volume expanding as well, along with price closing in a tight range, sell
    b. This is probably a shakeout before a reversal. Both longs and shorts are getting tossed around before the trend changes.

9. **Weekly Exhaustion Gap**
    a. If a stock is trending nicely and then gaps to a new weekly high, sell.
    b. Gaps are good when coming off a base, but bad when a stock is well into its uptrend.

10. **Stop Loss**
    a. Determine your stop loss before you enter a position. Stick to it no matter what.

11. **$25-$30**
    a. Stocks usually fall after reaching the $25-$30 level

12. Mistakes
   a. If a stock isn't acting right or moving in the wrong direction, just sell

13. 3 Higher Highs
   a. If a stock spikes to 3 or more new highs within 4-5 weeks, this could signal buyer exhaustion

14. Weakening Peers
   a. Watch the leaders in your stock's industry/sector for signs of weakness
   b. If your stock is basing while they're selling off, your stock will likely be next to sell-off

15. Breaching The Upper Trendline
   a. Look for signs of weakness if the stock breaks above its upper trendline after a long advance
   b. You don't want to miss a possible parabolic move, but keep an eye out
   c. Look to sell on any close back below the upper trendline

16. Upper Bollinger Band
   a. If stock trades outside its upper Bollinger Band, wait for the first close within the band and sell

5 Super Laws Of Selling Fundamental Risk

If your stock meets any or all of these criteria, sell.

1. **Price Target Or When Risk / Reward Is No Longer Favorable**
   a. Sell at the fair value you calculated for the stock. This level is where the risk/reward becomes unfavorable to hold.

2. **Secondary Offerings / Private Placements**
   a. Share offerings scare away momentum players
   b. The larger float, increased expenses, and larger short interest all work against you
   c. Executives do secondary offerings when they don't see the stock heading higher and when prices are high as possible

3. **End Of Sequential Earnings Ramp**
   a. When the company announces earnings significantly below the previous quarter, sell
   b. The share price usually dies when earnings momentum dies

4. **Stock Splits**
    a. Splits increase the float which makes it harder for momentum players to move the price
    b. Reverse splits signal the company is in bad shape. You should exit.

5. **Massive Insider Selling**
    a. Watch for one or more insiders selling a majority of their stake in the company
    b. A normal, moderate increase in selling as price rises is okay

Second Tier Sell Signals

The following are warning signals that you should reassess how much higher your stock has to go

1. **Headlines**
    a. You want your stock to stay somewhat secret. When you see it getting national media attention, it's a signal it's become a crowded trade

2. **Message Board Euphoria**
    a. If the stocks' message board turns from quiet and intelligent to loud and dumb, this may be a signal of the stock's run coming to an end. Sentiment has likely shifted and it's become a crowded trade.

3. **Expansion**
    a. A company expanding its capacity will likely see its margins decrease as that new capacity sits idle at the start. A company running at 100% capacity should have pretty good margins. The best stocks have capacity utilization rates that are climbing quarter to quarter, not decreasing.

4. **Once You Become A Genius**
    a. When everything in life, especially your stocks, start going your way, you need to be real careful to make sure you don't ignore certain signals and become overconfident. It's usually a good time to sell before everything starts going the other way.

5. **Confusing Earnings Reports**
    a. If the report has a bunch of one-time additions and removals that make it difficult to see the bottom line, it's a good idea to walk away. Other momentum traders will get confused and do the same. Management may also be covering something up.

6. **Tax Loss Reversals**

   a. When companies use tax-loss carry-forwards, their earnings become inflated.
   b. When they determine they're profitable on an "ongoing basis", they may reverse the rest of their tax-losses at once and create a large one-time gain on the income statement.
   c. This one-time increase makes comparisons for future quarters difficult. The company will also start deducting tax expense in the future which will make earnings look worse. It's a good idea to sell here.

7. **Pre-earnings Euphoria**
   a. Wildly optimistic investors on message boards along with an increasing price into earnings will make the chances of a positive surprise much lower. The stock is likely to sell off after the earnings release even if the results "met" expectations.

8. **Sell The Fluff**
   a. When a company goes from conservative reporting to reporting "fluff", including things like potential new customers or opportunities, this is a signal they're struggling. You should look to sell.

9. **Buy The Rumor, Sell The News**
   a. If you buy a stock based on an upcoming product, and the stock price is rising into its release, sell once the product is released. The market is a forward discounting mechanism. Once the future arrives, your edge is gone.

10. **Stock Advertisements**
    a. Whenever a company starts pushing their stock more than their business, sell.

11. **"Strategic Alternatives"**
    a. If a company announces they hired an I-bank to look at "strategic alternatives", sell. This means they're looking to sell their company or do a secondary offering or strategically go bankrupt. All of these are bad signs.

Quick Reference Guide For The Most Important Superstock Laws (Pg. 152)

Superstock Composition

- BLOCKBUSTER sustainable earnings release with high operating leverage + easy upcoming "comps."
- HUGE weekly volume thrust out of a strong base sending the stock above its 30 wma at a high angle of attack.
- Price under $15 with an annualized PE run rate of 10 or less.

- Low float and conservative management team.
- MEGA BONUS: insider buying, and a SUPER THEME.
- Extra factors that will increase chances of success:
    - Little competition
    - Low debt
    - Low short interest
    - Good ticker
    - Zero analyst coverage
    - High insider ownership
    - Momentum traders on board

When To Buy — Low Risk/High Reward Entries

- 2-3 weeks after initial earnings breakout. Wait for a gap test and/or low volume narrow price range.
- Buy lower trendline, especially when it coincides with low volume and a low price range.
- Buy AGGRESSIVELY at the magic line, ideally on low weekly volume in a very tight weekly price range.

When To Sell

Price action rules here. The chart will tell you to sell way before the fundamentals will. The following are sell signals after a stock has made a long-term advance:

- 7-10 weeks after a bounce from a magic line
- 9 months into an advance
- Parabolic surges
- Weekly gaps at new highs
- A weekly close below the magic line
- Largest weekly price range after a longer-term advance
- After the fourth or fifth surge off the magic line after a long advance
- Wide weekly price ranges and high volume volatile trading above and below the magic line (especially if the line is flattening or declining)
- Other Factors to Watch:
    - Other stocks in the sector failing
    - Breach of upper trendline / Bollinger Band
- Fundamental queues combined with a risky chart that will tell you to exit:
    - Stock offering
    - End of sequential earnings ramp
    - Stock split
    - Massive insider selling
    - Media headlines
    - Message board euphoria

- Company expansion
- Confusing earning reports
- Fluff press releases
- Stock advertisements
- “Strategic Alternatives”

Spotting Major Global Inflection Points (Pg 204)

1. **Superstocks Will Signal The Decline First (<u>Most Important Indicator</u>)**
    a. The best performing momo/superstocks start their decline before the total market does
    b. All the smartest investors are in these stocks and start selling when they see market danger
    c. At market bottoms you want to see these stocks form strong bases even as the general market continues to fall

2. **Dow Signal**
    a. Whenever the DOW gets 750 - 1,200 points above its 34 WMA, it corrects — this is mean reversion

3. **SOX Signal**
    a. The semiconductor index leads the market. Wherever it’s going, the rest of the market will follow.

4. **Global Markets**
    a. China, India, and Brazil will signal a global market turning point before clear signals are found in US equity indices

5. **Other Indicators That Will Hit Extremes In Short Periods Of Time:**
    a. VIX
    b. Credit Suisse “fear indicator”
    c. “NYMO”
    d. 90%+ volume into advancing and declining stocks
    e. Low 20 and 100 day put/call ratios
    f. “ROBO” (Retail Only, Buy to Open) dumb money option indicator
    g. Large speculator positions
    h. Spread between “smart money” and “dumb money” confidence
    i. Sentimenttrader.com is the best way to guage sentiment extremes

And there you have it. That’s pretty much everything. Yes… it’s extensive.

If you haven't already, you should definitely pick up *Superstocks* and give it a read. There's a few useful sections in the book not covered in these *Ops Notes*, including chapter 12 titled *Eleven Charts that Changed My Life and May Change Yours*. This chapter gives detailed examples showing the entire superstocks strategy in action. It's very helpful.

After you read Stein's magnum opus, feel free to refer back to this outline to guide you as find your next Superstock.

Good luck!