

Top 10 Stock Screening Strategies That Make Money

Screens that work in both up markets and down!

*By: Kevin Matras
Powered by: Zacks Research Wizard program*

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Introduction

The Screens that I go over in this book are just some of the screens that we've published in our 'Screen of the Week' articles.

Some of these screens are proven profitable trading strategies that I created with and backtested in the Research Wizard.

And others are simply unique ways to screen for winning stocks. (In fact, some of these screens shatter common myths on evaluating stocks, complete with eye-opening statistics.)

There are also other screens that didn't make it into this book, for no other reason other than we wanted to keep this book short and to the point. (It's "not meant to be an encyclopedia of screens", our editor kept reminding me.) Plus, we didn't want to give all of our secrets away all at once.

But the screens presented here (and the ones we left out) are ALL available in the Research Wizard program.

So please read on and learn how you can pick better stocks that make more money, now!

Kevin Matras



Zacks Investment Research, Inc.



The Importance of Screening and Backtesting

Why Should I Use a Stock Screener?

The short answer is:

"Because there's over 10,000 stocks out there and you need a way to find the good ones".

The longer answer is:

Other than buying the stocks that are talked about on TV or written about in the paper (not to mention 'tips' from a friend), how else are you going to find stocks that meet certain fundamental characteristics.

Even if you don't use a screener now, most people still do their own 'screening' one way or another. They may hear that a stock has a certain Growth Rate, or a certain P/E Ratio or Sales Surprise, or whatever. They then find themselves listening for or reading about stocks that meet this criteria.

Well if you want to find stocks that meet certain criteria, you can find them quickly and easily with a stock screener.

But, just because you narrow down 10,000 stocks to only a handful, doesn't necessarily mean that you've picked the best stocks on the planet.

You might have picked the worst ones.

But how will you know?

Backtesting!

Once you've created a screen, you can then backtest it to see how good (or bad) your screening strategy has performed.

In other words, does your screen generally find stocks that go up once they've been identified, or does your screen generally find stocks that get buried once they've been identified?

This is good stuff to know.

With backtesting, you can see how successful your stock picking strategy has performed in the past, so you'll have a better idea as to what your probability of success will be now and in the future.

... just because you narrow down 10,000 stocks to only a handful, doesn't necessarily mean that you've picked the best stocks on the planet.

You might have picked the worst ones.

The Importance of Screening and Backtesting *continued...*

Of course, past performance is no guarantee of future results, but what else do you have to go by?

Think about it; if you saw that a stock picking strategy did nothing but lose money, year after year, period after period, stock after stock, over and over again (you get the point), there's NO WAY you'd want to trade that strategy or use that screen to pick stocks with.

Why?

Because it's 'proven' that it picks bad stocks.

Sure, it may turn around and start picking winners, but it may also continue to pick losing stocks the way it always has.

One the other hand;

... what if you saw a strategy that did great year after year, period after period (you know where this is headed), you'd of course would want to trade that strategy.

Why?

Because it's proven to be a profitable trading strategy.

And while it may start picking losers all of a sudden (now that you're using it 😊), it may also continue to pick winning stocks, just like it had been doing over and over before.

Keep in mind, a screening and backtesting program isn't a 'box of magic'.

But it's a great way to see what works and what doesn't BEFORE you put your money at risk!

I'll end this with a recollection of a conversation I had with someone a while back who was 'stuck' in a losing stock.

I asked him why he was still in it if it kept on losing money.

He said that he didn't think it would go much lower from here.

I asked him if he thought it would go this low when he bought it.

(He of course said no.)

I then asked him if he thought it'd go up from here.

His answer was 'probably not right away' and then he added that it could possibly still fall a bit more from here.

I told him there are plenty of stocks going straight up; "Why don't you get out of that one that's losing you money and get into a better one".

His answer was; he didn't know of any better stocks to get into.

I then asked him; “what if you did know of a better stock to get into, would you do it”?

His answer of course was: YEAH! But he quickly added that he didn't know how to find 'better' stocks.

That last comment said it all.

He was in losing stocks because he didn't know how to pick better ones.

But if he had a proven, profitable, stock picking strategy, he could.

Don't get me wrong, just because you have a great strategy for picking winning stocks, it isn't going to preclude you from ever having another loser. On the contrary, even some of the best strategies 'only' have win ratios* of 70% or 80%. (NOT 100%.)

But if your strategy picks winners far more often than losers, once you find yourself in a losing trade, you can quickly cut your losses and feel confident that your next pick will have a high probability of succeeding.

... if your strategy picks winners far more often than losers, ... you can feel confident that your next pick will have a high probability of success.

And that's why someone should use a Screener and a Backtester.

No Hype

This book of screens will not be hype for the Research Wizard: Stock Picking and Backtesting Software.

But I should add that most of these screens would be impossible to do on any other program other than the Research Wizard.

- With over 8,600 stocks
- 650 different fundamental data items
- The ability to create you own custom calculations and comparisons
- Access to historical data
- Not to mention backtesting

... this is one of the most capable screeners available.

Please read on for some great stock picking strategies and ideas.

* Win Ratio: see Trading the Strategies and Calculating Performance

Trading the Strategies and Calculating Performance

Trading the Strategies

All stocks are 'purchased' with an equal dollar amount. At the end of the holding/rebalancing period**, the screen is run again, keeping the stocks that remain qualified, selling the stocks that no longer qualify and buying the new stocks that newly qualify.

** Holding/Rebalancing Period: the amount of time a stock will be held once it qualifies the screen. In most cases, the holding/rebalancing period is four weeks (unless otherwise indicated).

* Win Ratio: the number of winning (profitable) holding periods out of the total number of available holding periods within the backtested time span. For example; if there were 39 winning holding periods out of a total of 52 available holding periods, the win ratio would be 75%.

Calculating Performance

At the beginning of each holding period, a list of stocks (portfolio) is generated. The period's returns are calculated using the % change in price from the beginning of the holding period to the end of the holding period, plus any applicable dividends. The returns for the portfolio is the arithmetic mean of the returns for the individual companies in the portfolio.

Compounded performances (when stated), were calculated by taking a hypothetical starting equity amount and calculating the total return for the period. Each subsequent period then used the resulting equity balance as its start to calculate that period's total return.

No consideration has been given to commission costs, slippage or any other real-world constraints, in any of the performance calculations.

Disclaimer: Stock trading/investing involves risk and you can lose some or all of your investment. Hypothetical results may not always be duplicated in the real world. Backtesting can also at times produce an unintended look-forward bias. In addition, hypothetical trading does not involve financial risk, and no hypothetical trading record can completely account for the impact of financial risk in actual trading, not the least of which is the ability to withstand losses or to adhere to a particular trading strategy in spite of trading losses. These are material points which can also adversely affect actual trading results.



Upgrades and Revisions 2

- A Winning Strategy for Beating the Market

Let's get started with one of my favorite screening strategies -- "Upgrades and Revisions 2".

It focuses primarily on stocks with upward Earnings Estimate Revisions and Rating Upgrades.

It generates on average of approximately 8-10 stocks a month, has an excellent win ratio (74%) and has shown consistently impressive returns, year after year after year.

The Parameters to this Strategy are:

→ **Zacks Rank = 1**

(The screen starts out by selecting only those stocks with a Zacks Rank of 1 -- 'Strong Buy'. With the Zacks Rank proving itself to be one of the best (if not the best) rating system out there (avg. annual return of 34.24% since 1988), this is a great way to start things off.)

→ **% Change Q1 Estimates over the last 4 weeks ≥ 0**

(Only earnings with fresh upward revisions for the current quarter, or at the very least no downward revisions, qualify. This is one of the most important filters and one of the reasons why this screen is called Upgrades and *Revisions*.)

→ **% Rating Change over 4 weeks ≥ 0**

(Since analysts' ratings have such a huge bias to the upside, I'm excluding anything that's been even slightly downgraded. Plus, since stocks receiving upward estimate revisions will generally see the brokers that cover them upgrade their ratings, this makes sense. This too is another big item and where the *Upgrades* name came from.)

→ **P/E using 12 mo. Forward EPS Estimates ≤ 65**

(It's been shown that stocks with forward P/E ratios over 65 tend to underperform the market. So we're keeping the lid on at 65 and under.)

→ **5 Year Historical EPS Growth ≥ 17**

(Yes, 17. When this screen was created, the average stock in the Zacks universe had a 5 year historical growth rate of 11%. Basically, this strategy is looking for companies that are doing better than the average historical growth rate, and at present, it's seeking companies that are more than 50% above this threshold.)

→ **% Change Actual EPS (F0)/(F-1) ≥ 0**

(In addition to the 5 yr. historical growth rate, we're also looking for positive EPS growth over this last year as well. (F0) being the last completed year and (F-1) being the year before the last completed year.)

→ **% Change Actual EPS (Q0)/(Q-1) ≥ 0**

(We're also looking for positive EPS growth last quarter over the one before that -- (Q0) being the last completed quarter and (Q-1) being the quarter before the last completed quarter.)

And ...

➔ **% Change Actual EPS (Q-1)/(Q-2) \geq 0**

(Positive EPS growth for the quarter over quarter period before the last completed quarter. (Q-1) over (Q-2).)

In short, the above two expressions demand two quarters of positive EPS growth.

And as a whole, the 5 yr., 1 yr. and last 2 quarters of EPS growth paint a solid earnings picture over the longer term historical and most recent historical past.

➔ **Last EPS Surprise \geq 0**

(The more likely a company has surprised in the past, the more likely they are to surprise in the future. This is true for both positive and negative surprises. So no negative surprises allowed.)

➔ **Price/Sales ratio \leq 4**

(I had great success with the Price/Sales ratio being between 2, 3 and 4. In general, a lower Price/Sales ratio is better. But I went with 4 because it didn't narrow down the stock selection so much.)

➔ **Price \geq 3**

(And finally, all the stocks have to be trading at a minimum of \$3 or higher. Although, with all of the items above, the typical pick has an average stock price of approx. \$30.)

This screen, by far, has the most hoops to jump through.

But the cumulative effect it has on finding the right stocks makes it one of the most "rock-solidest" strategies!

The Results

I ran a series of tests over each of the last 5 years (2001 thru 2005). I rebalanced the portfolio every four weeks and started each run on different start dates so each test would be rebalanced over a different set of four-week periods. This exercise was done to eliminate coincidence and verify robustness.

Over the last five years, this strategy has shown an average annualized gross return of 54.4% a year, with an average win ratio (winning periods divided by the total number of periods) of 74%. And again, it produces on average of 8-10 stocks for your portfolio each month.

To break it down further; in 2001, the average annualized gross returns were 55.8%, with an average win ratio of 71%.

In 2002, the average annualized gross returns were 42.1%, with an average win ratio of 68%.

In 2003, the average annualized gross returns came in at a whopping 108.5%, with an average win ratio at 92%.

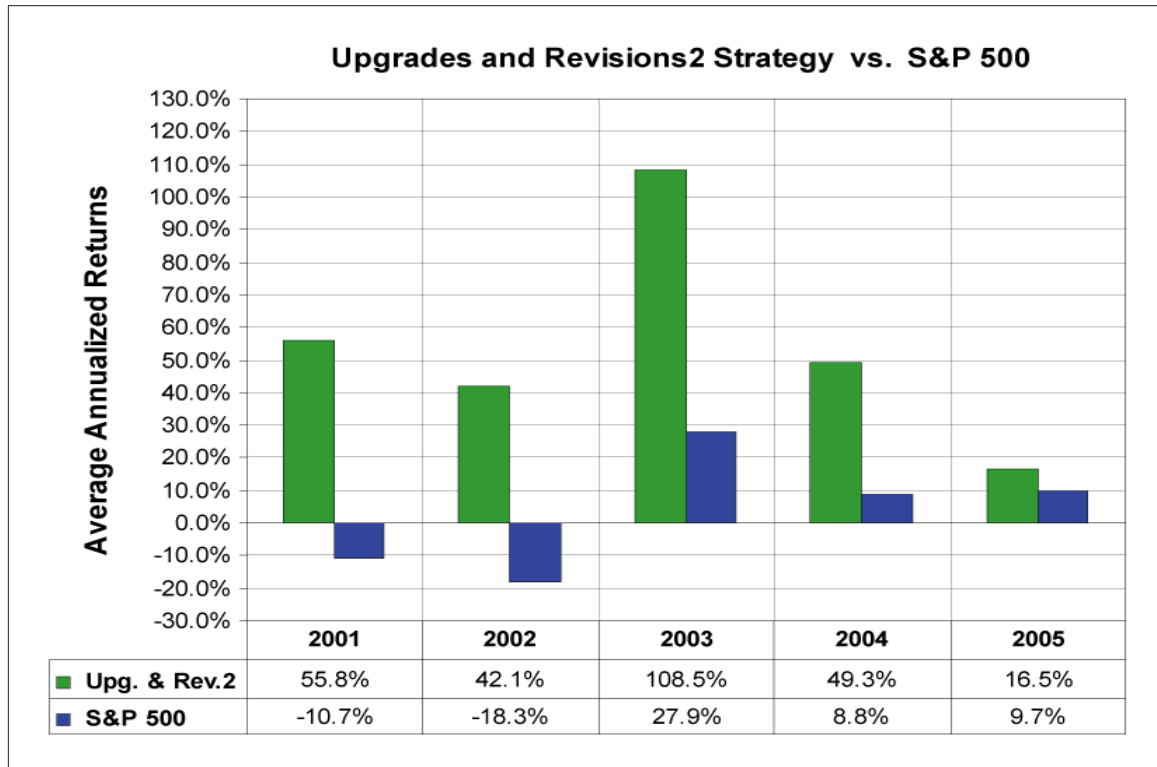
This screening strategy has shown consistently impressive returns, year after year after year.

Upgrades and Revisions 2 *continued...*

In 2004, the average annualized gross returns came in at 49.3%, with a win ratio of 72%.

And in 2005, the average annualized gross returns were up 16.5, with a win ratio of 65%.

(The below chart shows the average annualized returns.)



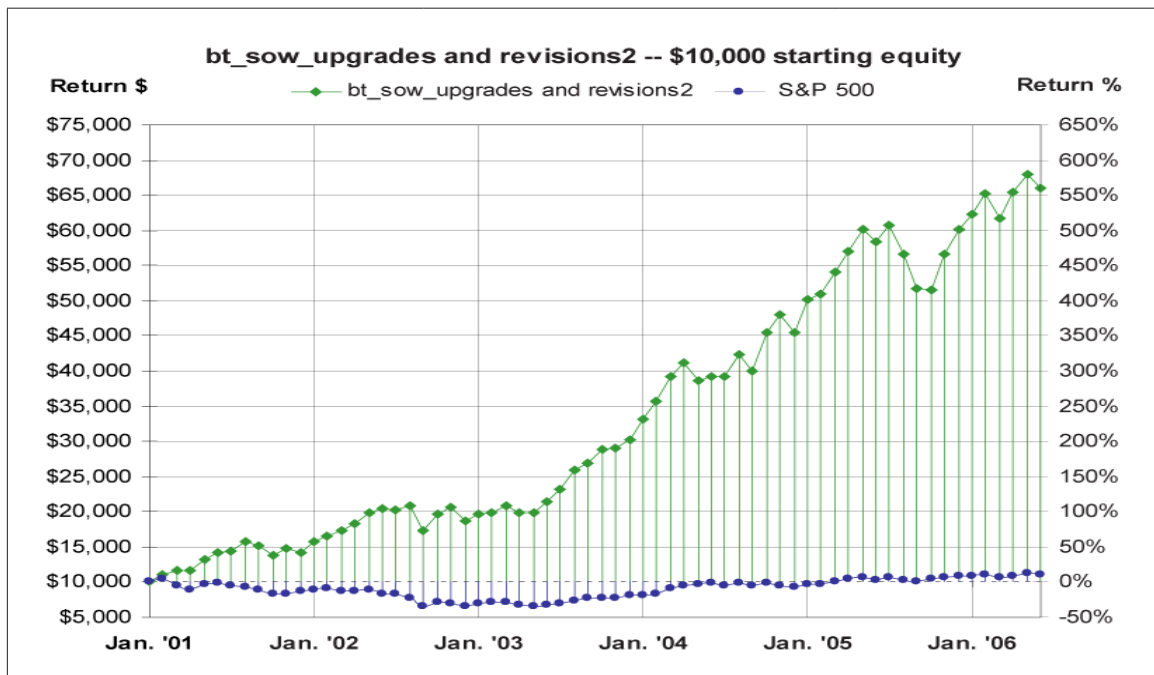
Hypothetical returns may not always be duplicated in the real world. There is risk of loss in trading stocks.

For further illustration, I ran a continuous backtest starting on 1/5/2001 and going thru 12/30/2005, rebalancing the portfolio every four weeks. I also compounded the periods' returns to greater simulate how one would invest. (For example; if the starting equity was \$10,000, and the first period's gain was 10% (\$1,000), the next period would invest with \$11,000. If that next period is off -10% (-\$1,100), the period after that would invest \$9,900.) Also, in this illustration (and all of the other performance illustrations), no consideration has been given to commission costs, slippage or any other real-world constraints.

The total return from its start date on 1/5/2001 thru 12/30/2005, is 560.2%, with a win ratio of 74% (48 winning periods out of 65 total periods). A hypothetical \$10,000 invested (sans commissions and etc.), increased to \$66,022.13. By comparison, a hypothetical \$10,000 invested in the S&P during that time would have increased to only \$10,281.83 (or 2.8%). (See the next page for performance statistics.)

Upgrades and Revisions 2 *continued...*

(The below chart and table shows the compounded returns from 1/5/2001 thru 12/30/2005.)



(1/5/2001 thru 12/30/2005)	Upgrades and Revisions 2	S&P 500
Compounded Total Return	560.2%	2.8%
\$10,000 Starting Equity	\$66,022.13	\$10,281.83
Win Ratio	74% (48/65)	
Avg. # of Stocks Held	8-10	

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Trading the Strategy

All stocks are purchased with an equal dollar amount. At the end of the holding/rebalancing period (4 weeks), the screen is run again, keeping the stocks that remain qualified, selling the stocks that no longer qualify and buying the new stocks that newly qualify.

Get It SoW

This screen is available in the Research Wizard by going to;

'Screen' on your Menu Bar

'Open Screen Definition'

Double-clicking the 'SoW' folder (SoW -- short for 'Screen of the Week')

Selecting the file: bt_sow upgrades and revisions2

More Upgrades and Revisions

There are two other versions of the Upgrades and Revisions strategy available in the Research Wizard as well.

One of the versions generates on average of only 4-5 stocks per period as opposed to 8-10.

All of the parameters are the same except that the Zacks Rank of 1, can't be more than four weeks old (i.e., the stocks had a Zacks Rank of 2 or higher four weeks ago and have since been changed (upgraded) to a 1 within the last four weeks.

(This change will increase your turnover rate (and commission costs, etc.), since every four weeks, a completely new list of stocks is generated.)

This was actually the very the first version of the Upgrades and Revisions strategy. I later revised it by taking out the 'no more than four weeks old' item and named it Upgrades and Revisions 2.

(Aside from the number of stocks and the turnover rate, the performance results are very similar for both.)

This screen can also be found by going to;

- 'Screen' on your Menu Bar
- 'Open Screen Definition'
- Double-clicking the 'SoW' folder
- Selecting the file: bt_sow upgrades and revisions

All stocks are 'purchased' with an equal dollar amount. At the end of the holding/rebalancing period, the screen is run again, keeping the stocks that remain qualified, selling the stocks that no longer qualify and buying the new stocks that newly qualify.

Even More Upgrades and Revisions

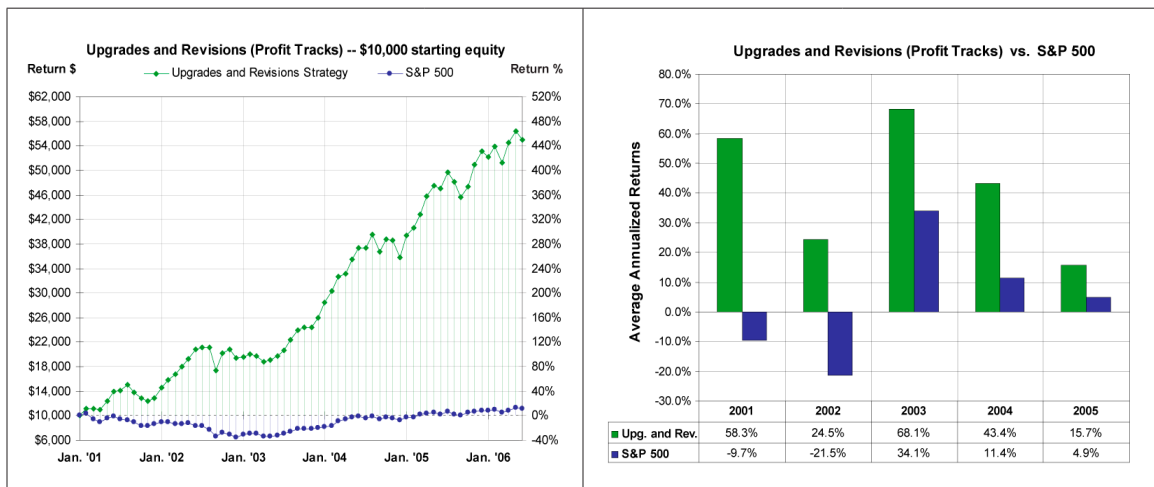
And lastly, there's another version that can be found in our Profit Tracks folder. This strategy and the other Profit Track strategies in this folder, typically produce on average of 25-30 stocks per period.

More changes were made to this version so as to increase the number of qualified stocks coming thru. But the main principle of 'Upgrades' and 'Revisions' still drives this screen.

The biggest change however was including Zacks 2's, in addition to the 1's (both 'Buys' and 'Strong Buys'). This produced a bigger stock list for larger investors, but still limited it to the 'best' of the 'best'. (See the next page for its performance statistics.)

Upgrades and Revisions 2 *continued...*

(The below charts and table depict the compounded returns.)



(1/5/2001 thru 12/30/2005)	Upgrades and Revisions (Profit Tracks)	S&P 500
Compounded Total Return	449.6%	2.8%
\$10,000 Starting Equity	\$54,960.50	\$10,281.83
Win Ratio	72% (47/65)	
Avg. # of Stocks Held	25-30	

Hypothetical returns may not always be duplicated in the real world. There is risk of loss in trading stocks.

This screen can be found in the Research Wizard by going to;

- 'Screen' on your Menu Bar
- 'Open Screen Definition'
- Double-clicking the 'ProfitTracks' folder
- Selecting the file: upgrades and revisions

No matter which 'Upgrades and Revisions' strategies you choose, they all have excellent performance results.

'Magic Numbers'? and Relative Valuations

So many people I speak to, seem to believe there are some magic numbers out there that equate to stock picking success.

Two things in particular that I hear over and over again when I'm helping people with their screening strategies, relates to P/E Ratios and Price/Book Values.

For some reason, many people believe that P/E Ratios of 20 or less and Price/Book Values of 1 or less are these so-called magic numbers.

Unfortunately, statistics prove otherwise.

I first wrote about this in June of 2003.

In that article, I presented some very eye opening statistics.

-- from 6/30/03;

Looking at the best performing stocks over the last six months (as qualified by stocks that were trading at \$10 or higher at the beginning of the period and that have increased by 50% or greater), the average P/E Ratio over that time (using 12 mo. EPS Actuals), was more than 50.

That's more than 2 1/2 times the 'magic' P/E numbers.

True, there were some in there with P/E's under 20, but you would've missed a lot of fantastic winners if you excluded those over 20.

As for the average Price/Book Value, it was more than 4. (Not 1 or even 2, but over 4!) In fact, not one of the stocks on that list [6/30/03] has a Price/Book Value of 1 or less.

So if you insist on looking for stocks with 'low' valuations (P/E, P/B), try comparing them to their relevant Industries.

Why? Because while a small number of stocks traded at P/E's of less than 20 with no stocks having P/B's of 1 or less, ... 70% of those stocks on that list of winners had P/E's under the average for their Industry and 48% had P/B's under the average for their Industry.

Very eye opening!

I republished this article again in October of 2003 and August 2004 with updated stats.

... many people believe that P/E Ratios of 20 or less and Price/Book Values of 1 or less are magic numbers (to stock picking success). Unfortunately, statistics prove otherwise.

-- from October 2003;

Once again, looking at the best performing stocks over the last six months [from 10/2003] (as qualified by stocks that were trading at \$10 or higher at the beginning of the period and that have increased by 50% or greater), the average P/E Ratio was over 30 at the beginning of the study and over 45 at the end. (That's respectively 1 1/2 times and more than 2 times the magic P/E number of 20 or less.)

The Price/Book Value started at over 3 and wound up at over 4. Again, way over the magic number of 1 or less. (That time, only 3% of the stocks on that list (that's only 9 stocks out of 288), had a Price/Book Value of 1 or less.)

When compared to their relevant Industries however, close to 70% of the stocks on that list had P/E's under the average for their Industry and over 50% had P/B's under the average for their Industry.

In August of 2004, I re-ran this article, but was now using the choppy to lower market of 2004 [lower at that time] as opposed to the bull market of 2003. The statistics however, remained virtually unchanged.

Looking at the best performing stocks ... the average P/E Ratio was more than 2 times the 'magic number' of 20 ...

-- from August 2004;

This time, since the flat/lower market [lower then] made it harder to find a large sample of stocks that increased by 50% or greater, I expanded the 6 month performance period to a YTD (Year-to-Date) period (8 months since it was August), and I reduced the minimum price down to \$5 instead of \$10. The volume qualifier stayed the same though: average daily volume \geq 50,000 shares.

The study showed that the beginning P/E Ratios averaged out to be over 33 and increased to over 41. Again, 1 1/2 times and more that 2 times the 'magic number' of 20. And this time, the P/B value started at over 4 and rose to more than 5, with only 1 stock on that list of 67 stocks having a Price/Book Value of 1 or less.

But when compared to their relevant Industries, 70% had P/E ratios under the average for their Industry and close to 60% had P/B's under the average for their Industry.

So instead of thinking about 'low' valuations as an absolute number, try thinking about them as a relative measure.

I've found that companies that are outperforming their Industries on earnings but are 'undervalued' to their group in terms of valuations are great candidates.

True, there were some in there with P/E's under 20, but you would've missed a lot of fantastic winners if you excluded those over 20.

Parameters

I've created such a screen and have included the following parameters;

- ➔ **P/E Using 12 month EPS < XIndMean**
(Stocks with P/E ratios that are lower than the average P/E's for their relevant Expanded (X) Industries.)
- ➔ **Price/Book < XIndMean**
(Price to Book values that are lower than the average P/B values for their relevant Expanded Industries.)
- ➔ **Current Price/52 week High >= .90**
(Companies with upward price momentum and that are trading within 10% of their 52 week high.)
- ➔ **% Change Actual EPS (Q0)/(Q-1) > XIndMean**
(We're looking for EPS growth over the last quarter over quarter period to be greater than the average EPS growth for its relevant Expanded Industry.)

And ...

- ➔ **% Change Actual EPS (Q-1)/(Q-2) > XIndMean**
(EPS growth over the previous quarter over quarter period to be greater than the average EPS growth for its relevant Expanded Industry.)

In short, it's looking for stocks that have shown greater EPS growth over the last two quarter over quarter periods than their Industry's average.

- ➔ **Price >= \$5**
- ➔ **Average 20 Day Share Volume >= 50,000**
(Average daily trading volume (over the last 20 days) is a minimum of 50,000 shares or greater.)

Get It SoW

This strategy can be found in the Research Wizard by going to;

- 'Screen' on your Menu Bar
- 'Open Screen Definition'
- Double-clicking the 'SoW' folder
- Selecting the file: `sow_relative valuations`

Try incorporating some of these ideas into your own stock picking strategies.

And while relative valuations aren't available in most screeners, they are available in the Research Wizard. (Not to mention over 650 other fundamental database items too).

Filtering the Zacks Rank - Tips on Trading the Zacks Rank

I'm sure most everyone reading this knows that the Zacks Rank is probably the most effective rating system out there. Good markets or bad, stocks with a Zacks Rank of #1, continue to outperform.

In fact, since 1988, the average annualized return of Zacks' #1 Ranked stocks is up over 34.2% a year.

Wow!

But since there are typically over 200+ stocks Ranked a #1 at any time, it's important to know what other filters to apply to the Zacks Rank to generate a smaller (more tradable) watchlist.

Two filters in particular, when added to the Zacks Rank of #1, not only narrows down the number of qualified stocks to a practical portfolio size (approx. 10-12 stocks), it often times increases its performance as well.

Parameters

The two filters I'm talking about are;

- ➔ **% Change (Q1) Est. over 4 Weeks > 0**
(Positive current quarter estimate revisions over the last four weeks.)
- ➔ **% Broker Rating Change over 1 Week > 0**
(Positive avg. broker rating changes over the last week.)

And of course ...

- ➔ **Zacks Rank = 1**

These two items added to the Zacks #1 Rank, produce powerful results!

Results

I ran a series of separate tests on the Filtered Zacks Rank strategy, over each of the last four years (2002, thru 2005). I rebalanced the portfolio every four weeks and started each run on different start dates so each test would be rebalanced over a different set of four-week periods. This is done to eliminate coincidence and verify robustness.

Disclosure: Zacks Rank performance is the total return (price changes + dividends) of equal weighted portfolios, consisting of those stocks with the indicated Zacks Rank, assuming zero transaction costs. Results reflect the reinvestment of dividends and other earnings. These returns are not the result of a backtest. Simulated results do not represent actual trading and may not reflect the impact that economic and market factors might have had on decision-making if an adviser were actually managing a client's money. The stocks in the Zacks Rank portfolios were available to Zacks clients before the beginning of each month (monthly rebalancing).

Year	Zacks Rank #1 Stocks Return	S&P 500 Return
1988	37.46%	16.20%
1989	36.09%	31.70%
1990	-2.97%	-3.10%
1991	79.79%	30.40%
1992	40.65%	7.51%
1993	44.41%	10.07%
1994	14.34%	0.59%
1995	54.99%	36.31%
1996	40.93%	22.36%
1997	43.91%	33.25%
1998	19.52%	28.57%
1999	45.92%	21.03%
2000	14.31%	-9.10%
2001	24.27%	-11.88%
2002	1.22%	-22.10%
2003	74.74%	28.69%
2004	28.79%	10.87%
2005	17.97%	12.01%
Annualized	34.24%	13.13%

Filtering the Zacks Rank *continued...*

In 2002, the Zacks #1 Rated stocks returned just over 1%, with an average portfolio size of approx. 200 stocks. An impressive return when compared to the S&P 500's -22%.

But holding onto 200 or so stocks isn't doable for most investors. But when adding the two aforementioned filters, the portfolio size shrinks to a tradable 10 stocks (on average), and a phenomenal 18.1% return.

In 2003, the Zacks #1 list (approx. 200 stocks) did nearly 75% in comparison to the S&P 500's almost 29%.

But the filtered Zacks Rank narrowed that list down to only 10 stocks (on average) with a return of over 66%. (And while it's true the filtered Zacks Rank produced a smaller return than the full Zacks Rank (66% vs. 75%), rebalancing only 10 stocks a month is far more manageable than 200.)

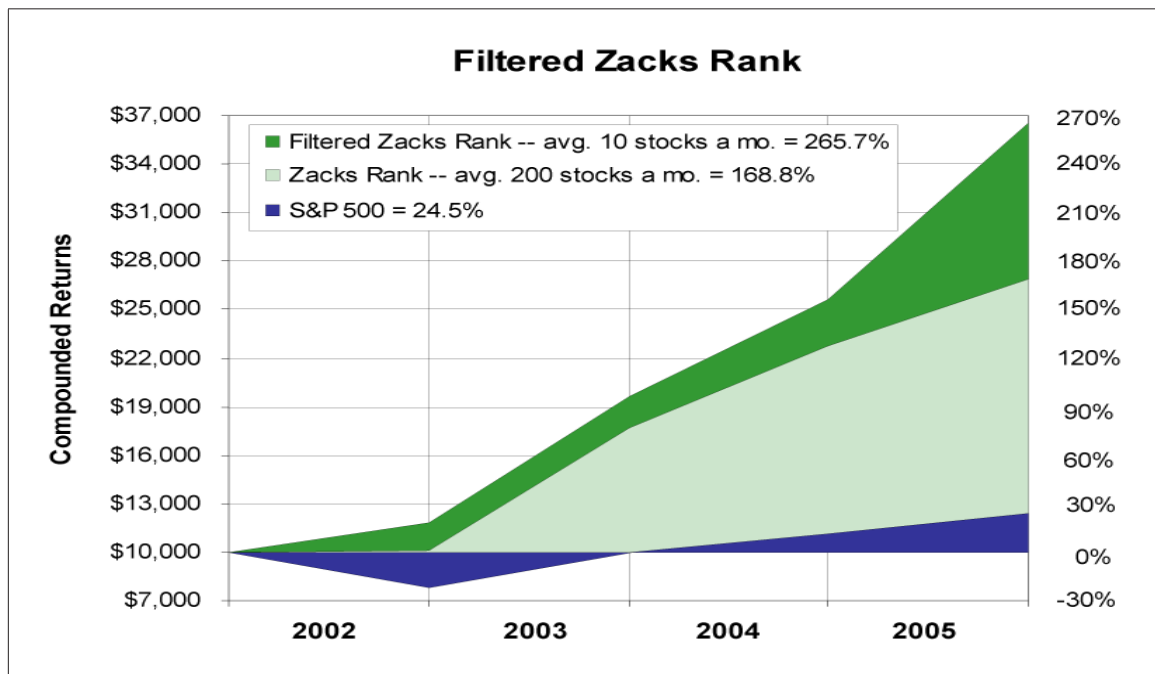
**... the 'filtered' Zacks Rank.
Trade fewer stocks
for bigger returns.**

In 2004, the annualized returns for the Zacks #1 Ranked stocks was up 28.8% with an average portfolio size approx. 200 stocks. (The S&P was up only 10.9%.)

Yet the filtered Zacks #1's annualized returns were up 30.3%, with again, only 10 stocks to hold on average.

And it was right on track again in 2005. The annualized returns for the complete list of the #1 Ranked stocks (again, approx. 200 stocks) was up nearly 18% in comparison to the S&P's 12%! But the filtered Zacks Ranked #1's were up almost 43%. (That's more than twice the return on a fraction of the stocks.)

(The chart below shows these annual returns, compounded over the last four years -- 2002 thru 2005).



Hypothetical returns may not always be duplicated in the real world. There is risk of loss in trading stocks.

Filtering the Zacks Rank *continued...*

If you're looking for a reliable way to trade some of the best of the Zacks #1's, try the filtered Zacks Rank; trade fewer stocks for bigger returns.

Trading the Strategy

All stocks are purchased with an equal dollar amount. At the end of the holding/rebalancing period (4 weeks), the screen is run again, keeping the stocks that remain qualified, selling the stocks that no longer qualify and buying the new stocks that newly qualify.

Get It SoW

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- 'Screen' on your Menu Bar
- 'Open Screen Definition'
- Double-clicking the 'SoW' folder
- Selecting the file: `bt_sow_filtered zacks rank`

Return on Equity (ROE) ***- Part of a Winning Screening Strategy***

This screen uses the 'Return on Equity' (ROE) measure as one of the main components in this strategy.

This too is one of my favorite strategies and one of the most popular.

ROE is one of the quickest ways to see whether a company is creating assets or gobbling up investors' cash.

ROE = income / common equity

For instance; if the ROE is 10%, then ten cents of assets are created for each shareholder dollar that was originally invested.

Knowing the company is generating assets on invested capital rather than burning thru it is a great starting point.

**ROE (Return on Equity)
is one of the quickest ways
to gauge whether a company is
creating assets or gobbling up
investors' cash.**

Parameters

➔ **ROE \geq 10**

(The median ROE value for all of the stocks in the Zacks Universe is under 10. So any company with shareholder equity less than this benchmark is disqualified.)

➔ **Zacks Rank = 1**

(The Zacks Rank (which is considered by many to be the best rating system out there), looks at upward earnings estimates revisions (amongst other things), and will get us into companies whose forecasted earnings are getting stronger.)

➔ **% (Broker) Rating Strong Buy = 100(%)**

(Since broker ratings are typically skewed wildly to 'buy' and 'strong buy', I decided to cancel out any company where the brokers aren't fully on board.)

➔ **Price/Sales \leq 1**

(A low price to sales ratio (1 and below for example), is usually thought to be of better value, since the investor is paying less for each unit of sales.)

➔ **Price \geq 5**

(And for good measure, all of the stocks have to be trading at a minimum of \$5 or higher. Most money managers won't touch anything under \$5.)

The Results

I ran a series of tests over each of the last 5 years (2001 thru 2005). I rebalanced the portfolio every four weeks and started each run on different start dates so each test would be rebalanced over a different set of four-week periods. This exercise was done to eliminate coincidence and verify robustness.

Over the last five years, this strategy has shown an average annualized gross return of 81.1% a year, with an average win ratio of 75%. And it produces on average of 4-5 stocks for your portfolio each month.

In 2001, the average annualized gross return was 59.7%, with an average win ratio of 63%.

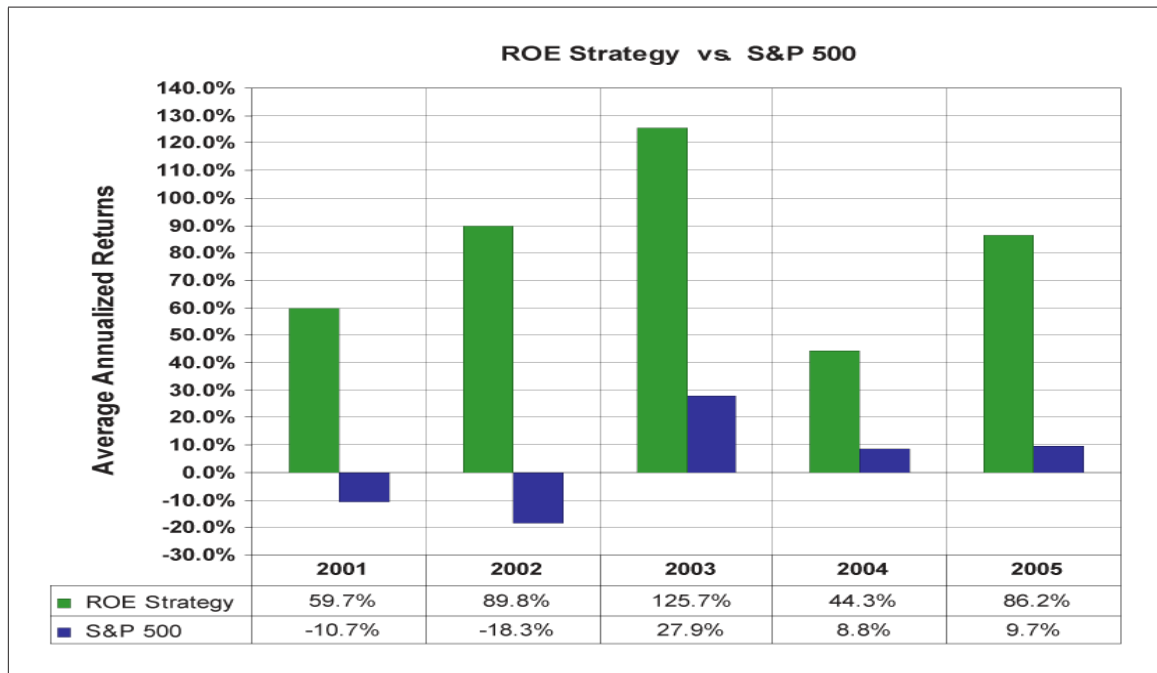
In 2002, the average annualized gross return was 89.8%, with an average win ratio of 79%.

In 2003, the average annualized gross return was 125.7%, with an 88% win ratio.

In 2004, the average annualized gross return was 44.3% with a win ratio of 73%.

And in 2005, the average annualized gross returns were 86.2% with a win ratio of 73%.

(The below chart shows the average annualized returns.)



Hypothetical returns may not always be duplicated in the real world. There is risk of loss in trading stocks.

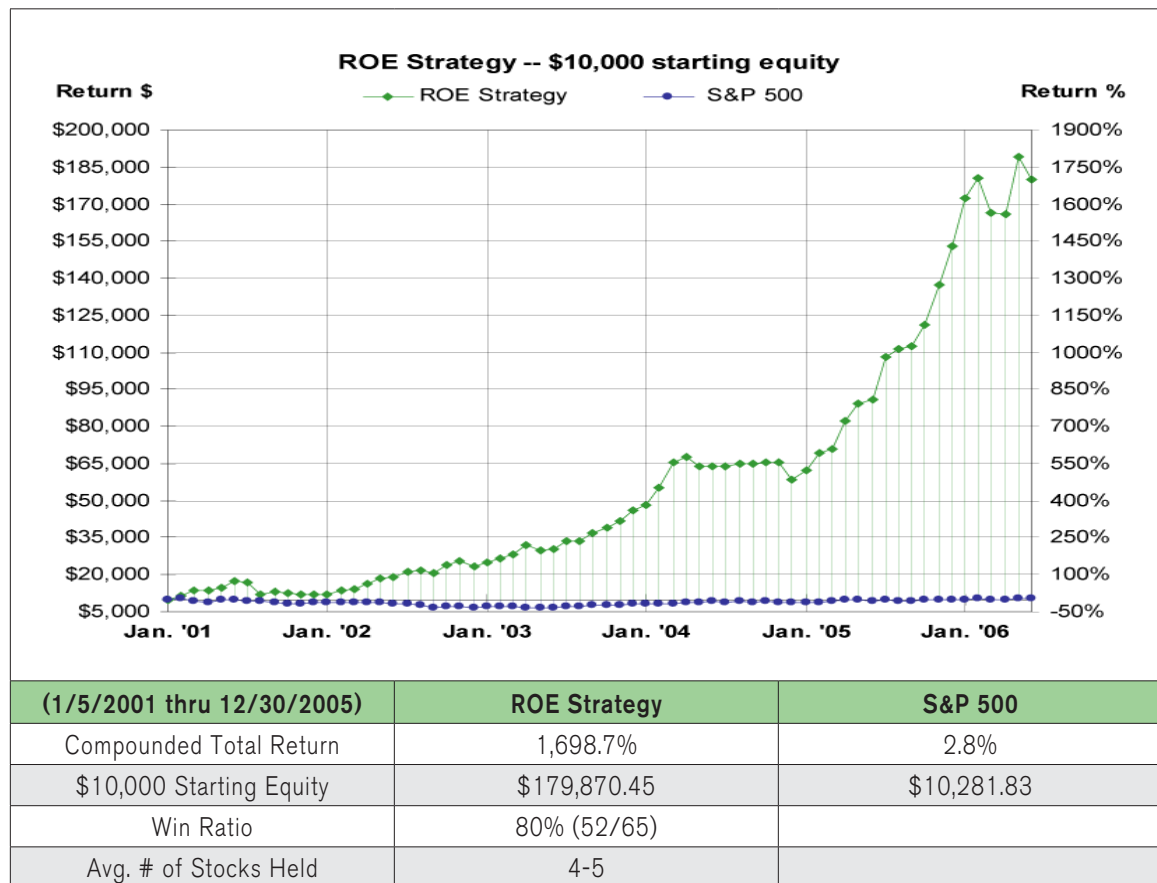
For further illustration, I ran a continuous backtest starting on 1/5/01 and going thru 12/30/05, rebalancing the portfolio every four weeks. I also compounded the periods' returns to greater simulate how one would invest. (For example; if the starting equity was \$10,000 and the first period's gain was 10% (\$1,000), the next

Return on Equity (ROE) *continued...*

period would invest with \$11,000. If that next period is off -10% (-\$1,100), the period after that would invest \$9,900.) Also, in this illustration (and all of the other performance illustrations), no consideration has been given to commission costs, slippage or any other real-world constraints.

The total return from its start date on 1/5/2001 thru 12/30/2005, is 1,698.7%, with a win ratio of 80% (52 winning periods out of 65 total periods). A hypothetical \$10,000 invested (sans commissions and etc.), increased to \$179,870.45. By comparison, a hypothetical \$10,000 invested in the S&P during that time would have only increased to \$10,281.83.

(The below chart shows the compounded returns from 1/5/2001 thru 12/30/2005.)



Hypothetical returns may not always be duplicated in the real world. There is risk of loss in trading stocks.

Trading the Strategy

All stocks are purchased with an equal dollar amount. At the end of the holding/rebalancing period (4 weeks), the screen is run again, keeping the stocks that remain qualified, selling the stocks that no longer qualify and buying the new stocks that newly qualify.

Return on Equity (ROE) *continued...*

Get It  SoW

This screen is available in the Research Wizard by going to;

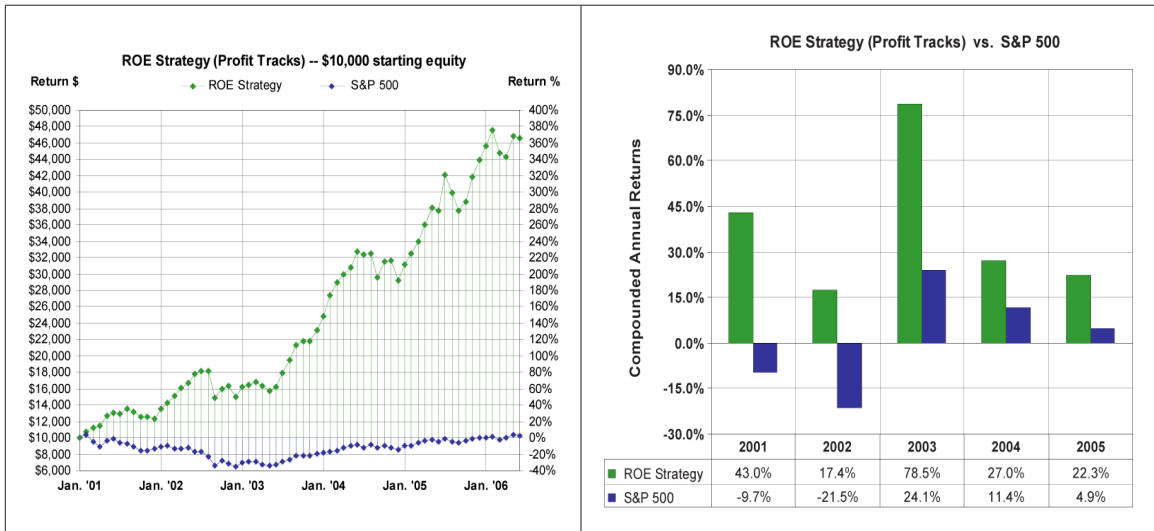
- 'Screen' on your Menu Bar
- 'Open Screen Definition'
- Double-clicking the 'SoW' folder
- Selecting the file: bt_sow_roe

More ROE  Profit Tracks

There's also another ROE strategy available in the Research Wizard and this version generates on average of 25-30 stocks per period as opposed to the one above's 4-5.

There are a few different parameters as well, but the focus still remains on the ROE. And it too has very impressive results and an excellent win ratio.

(The below charts and table depict the compounded returns.)



(1/5/2001 thru 12/30/2005)	ROE (Profit Tracks)	S&P 500
Compounded Total Return	365.6%	2.8%
\$10,000 Starting Equity	\$46,559.88	\$10,281.83
Win Ratio	72% (47/65)	
Avg. # of Stocks Held	30	

Hypothetical returns may not always be duplicated in the real world. There is risk of loss in trading stocks.

Return on Equity (ROE) *continued...*

This screen can also be found in the Research Wizard by going to;

'Screen' on your Menu Bar
'Open Screen Definition'
Double-clicking the 'ProfitTracks' folder
Selecting the file: roe

Earnings Acceleration: - The Difference Between Good Stocks and Great Stocks

In good markets or bad, strong earnings are one of the most important things that influence stock prices.

But instead of just looking at the most recent quarter's earnings, try looking for earnings acceleration too.

Studies have shown that almost all of the most successful stocks in the past had displayed accelerated earnings BEFORE their most impressive price moves.

Sideways 'percentage earnings growth' (even if they're good) or decelerating 'percentage earnings growth' (strong or not) can potentially signal a period of consolidation (or slowdown) which in turn can flatten out prices or send them lower.

But increasing 'percentage earnings growth' (consistently improving from the company's prior percentage of earnings growth) can often be the difference between good stocks and great stocks.

Studies have shown that almost all of the most successful stocks in the past had displayed accelerated earnings BEFORE their most impressive price moves.

The Parameters

In this screen, I'm focusing on increasing 'percentage earnings growth' and projected 'percentage earnings growth'.

I want the last two Quarter over Quarter % EPS Growth periods to be greater than the previous periods and the next projected Quarter over Quarter % EPS Growth period to be greater than the previous period as well.

(For quick reference, Q(0) = the completed quarter. Q(-1) = the quarter prior to the completed quarter. Q(-2) = 2 quarters prior to the completed quarter, and etc. Moving in the other direction, Q(1) = the current quarter. Q(2) = the next quarter, and etc.)

So the parameters would look like this;

- ➔ **% Change Actual EPS (Q0)/(Q-1) > % Change Actual EPS (Q-1)/(Q-2)**
- ➔ **% Change Actual EPS (Q-1)/(Q-2) > % Change Actual EPS (Q-2)/(Q-3)**
- ➔ **Estimated EPS Growth (Q1)/(Q0) > % Change Actual EPS (Q0)/(Q-1)**

(In the Research Wizard, you can compare an item to another item. This is done in the Calculation Expression feature, and how the above customized items were created.)

In addition to that, I'm only including stocks greater than or equal to \$5 with an average daily share volume of 50,000 or more;

- ➔ **Price >= \$5**
- ➔ **Average 20 Day Share Volume >= 50,000**

Get It SoW

This screen is available in the Research Wizard by going to:

- 'Screen' on your Menu Bar
- 'Open Screen Definition'
- Double-clicking the 'SoW' folder
- Selecting the file: `sow_earnings acceleration`

So when a company reports earnings, take a look at their numbers, and then see how their current % EPS Growth stacks up to their previous period's % EPS Growth (and the period prior to that). Moreover, take a look at how their Earnings Growth is forecasted in their next reporting period as well.

Again, with statistics suggesting that accelerated earnings typically appear BEFORE the most impressive price moves of a stock, this is definitely a screen worth watching, for finding winning stocks on the move!!!

More on Earnings (Increasing Earnings)

Another screen I like running in regard to earnings, deals with Increasing Earnings (if not necessarily the percentage of EPS Growth).

Parameters

In this one I'm looking for each of last 8 quarters of Earnings (that's right -- 8 quarters) to be greater than the previous quarter's Earnings.

- ➔ **Quarterly EPS Q(0) > Quarterly EPS Q(-1)**
- ➔ **Quarterly EPS Q(-1) > Quarterly EPS Q(-2)**
- ➔ **Quarterly EPS Q(-2) > Quarterly EPS Q(-3)**
- ➔ **Quarterly EPS Q(-3) > Quarterly EPS Q(-4)**
- ➔ **Quarterly EPS Q(-4) > Quarterly EPS Q(-5)**
- ➔ **Quarterly EPS Q(-5) > Quarterly EPS Q(-6)**
- ➔ **Quarterly EPS Q(-6) > Quarterly EPS Q(-7)**
- ➔ **Quarterly EPS Q(-7) > Quarterly EPS Q(-8)**

(These were also created with the Research Wizard's Calculation Expression feature.)

This one isn't so much concerned with the increasing percentage of earnings growth, but rather, the simple increase of earnings from one period to another.

The thing that makes this screen so tough (i.e., a great stock picker), is that it demands a consistency of excellent performance from a company over an 'extended' period of time.

I also want this quarter's Estimated Earnings to be greater than last quarter's Actual Earnings and the next quarter's Estimated Earnings to be greater than this quarter's Estimated Earnings.

Earnings Acceleration *continued...*

- ➔ **Q(1) Consensus Estimate > Q(0) Actual Quarterly EPS**
- ➔ **Q(2) Consensus Estimate > Q(1) Consensus Estimate**

(Calculated Expressions.)

And price and volume are;

- ➔ **Price >= \$5**
- ➔ **Average 20 Day Share Volume >= 50,000**

The report that's generated will have the last 9 quarters lined up in the row, from left to right. It also continues out with the current quarter's estimated EPS (Q1) and the next quarter's estimated EPS (Q2). (You can also arrange the columns in any order you wish, so you can see the data you want in any way you want it.)

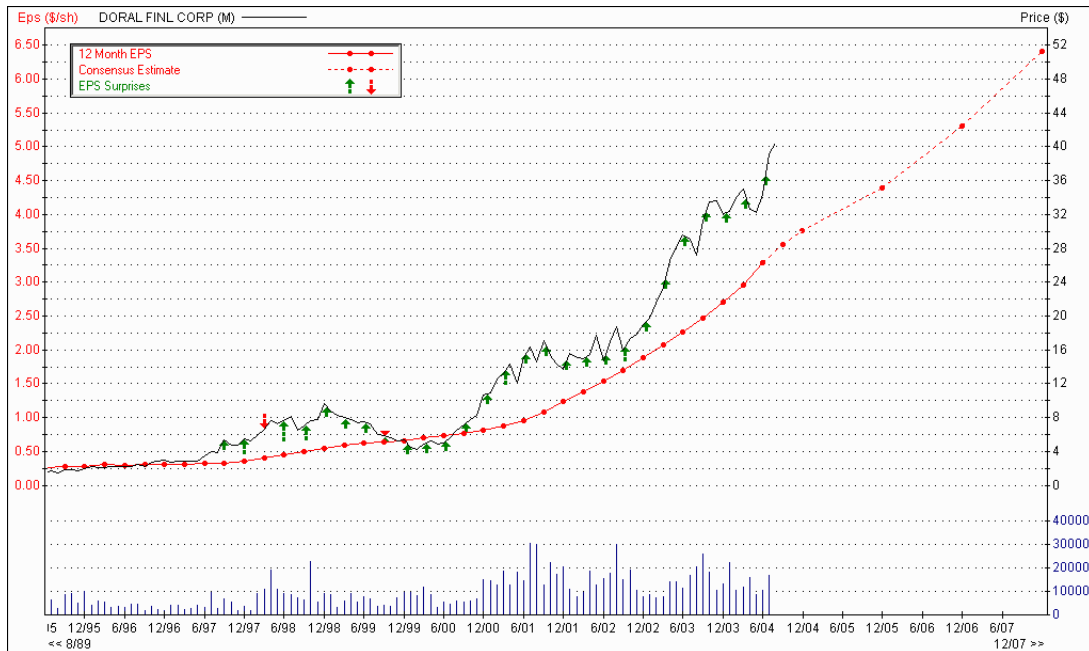
The thing that makes this screen so tough (i.e., a great stock picker), is that it demands a consistency of excellent performance ...

(With this display, you can instantly see the EPS trend.)

Company	Ticker	Qtr EPS Recent-8Q	Qtr EPS Recent-7Q	Qtr EPS Recent-6Q	Qtr EPS Recent-5Q	Qtr EPS Recent-4Q	Qtr EPS Recent-3Q	Qtr EPS Recent-2Q	Qtr EPS Recent-1Q	Qtr EPS Recent (Q0)	Current Quarter Cons Est (Q1)	t C
FOOD/DRUG-RETAIL/WHOLESALE												
Express Scripts	ESRX	\$0.61	\$0.67	\$0.72	\$0.75	\$0.78	\$0.81	\$0.86	\$0.92	\$0.94	\$0.98	
DRUGS												
Covance Inc	CVD	\$0.21	\$0.25	\$0.27	\$0.28	\$0.29	\$0.31	\$0.32	\$0.34	\$0.36	\$0.39	
MEDICAL CARE												
Amsurg Corp	AMSG	\$0.19	\$0.20	\$0.21	\$0.23	\$0.24	\$0.25	\$0.27	\$0.27	\$0.29	\$0.29	
Centene Corp	CNC	\$0.30	\$0.35	\$0.38	\$0.40	\$0.43	\$0.44	\$0.45	\$0.47	\$0.50	\$0.52	
Coventry Hlthcr	CVH	\$0.40	\$0.44	\$0.45	\$0.55	\$0.70	\$0.74	\$0.76	\$0.82	\$0.93	\$0.94	
Eresearch Tech	ERES	\$0.02	\$0.03	\$0.04	\$0.05	\$0.05	\$0.07	\$0.10	\$0.13	\$0.15	\$0.17	
Lincare Hldgs	LNCR	\$0.42	\$0.44	\$0.46	\$0.49	\$0.53	\$0.59	\$0.61	\$0.62	\$0.66	\$0.68	
Renal Care Grp	RCI	\$0.29	\$0.31	\$0.33	\$0.34	\$0.35	\$0.35	\$0.37	\$0.38	\$0.42	\$0.44	
Unitedhealth Gp	UNH	\$0.51	\$0.56	\$0.60	\$0.65	\$0.71	\$0.77	\$0.83	\$0.88	\$0.93	\$1.00	
Wellpoint Hlth	WLP	\$1.10	\$1.17	\$1.18	\$1.29	\$1.49	\$1.63	\$1.73	\$1.79	\$1.86	\$1.90	
MEDICAL PRODUCTS												
Adv Neuro Sys	ANSI	\$0.09	\$0.10	\$0.13	\$0.13	\$0.14	\$0.16	\$0.18	\$0.19	\$0.21	\$0.23	
POLLUTION CONTROL												
Steircycle Inc	SRCL	\$0.26	\$0.27	\$0.30	\$0.32	\$0.34	\$0.37	\$0.40	\$0.42	\$0.43	\$0.46	
COMPUTER-OFFICE EQUIPMENT												
Global Imaging	GISX	\$0.36	\$0.39	\$0.41	\$0.42	\$0.43	\$0.48	\$0.50	\$0.51	\$0.56	\$0.57	
M-Systems Flash	FLSH	-\$0.05	-\$0.04	-\$0.03	-\$0.02	-\$0.01	\$0.00	\$0.06	\$0.11	\$0.14	\$0.15	
COMPUTER SOFTWARE-SERVICES												
Akamai Tech	AKAM	-\$0.29	-\$0.28	-\$0.24	-\$0.11	-\$0.09	-\$0.03	-\$0.01	\$0.04	\$0.07	\$0.09	
Cognizant Tech	CTSH	\$0.07	\$0.08	\$0.08	\$0.09	\$0.10	\$0.12	\$0.13	\$0.14	\$0.17	\$0.18	
Infosys Tec-Adr	INFY	\$0.16	\$0.18	\$0.20	\$0.20	\$0.22	\$0.25	\$0.27	\$0.29	\$0.31	\$0.33	
Openwave Sys	OPWV	-\$0.57	-\$0.51	-\$0.42	-\$0.33	-\$0.24	-\$0.20	-\$0.15	-\$0.09	-\$0.02	-\$0.01	
Radware Ltd	RDWR	-\$0.05	-\$0.02	\$0.03	\$0.05	\$0.07	\$0.10	\$0.13	\$0.14	\$0.16	\$0.17	
ELECTRONIC-SEMICONDUCTORS												
Analog Devices	ADI	\$0.15	\$0.16	\$0.17	\$0.19	\$0.22	\$0.25	\$0.30	\$0.39	\$0.43	\$0.43	
Broadcom Corp	BRCM	-\$0.06	-\$0.03	-\$0.02	\$0.06	\$0.10	\$0.14	\$0.19	\$0.29	\$0.35	\$0.36	
Marvell Tech Gp	MRVL	\$0.06	\$0.07	\$0.08	\$0.10	\$0.11	\$0.13	\$0.15	\$0.17	\$0.20	\$0.21	
BANKS & THRIFTS												
Commerce Bcp-Nj	CBH	\$0.49	\$0.53	\$0.57	\$0.60	\$0.63	\$0.67	\$0.71	\$0.75	\$0.79	\$0.83	

And if you have access to the Integrated Company Analysis (ICA) program, you can right click on the stock and pull up a price chart with an EPS overlay. (See below.)

Earnings Acceleration *continued...*



The solid red line plots the actual EPS and the dotted red line plots the Estimated Earnings Consensus. I also included the stock's EPS Surprise history in this screen shot too. The green and red arrows show positive or negative surprises.

This strategy will typically find stocks with fantastic earnings consistency and a history of beating earnings expectations.

Get It  SoW

This screen is also available in the Research Wizard. Go to;

- 'Screen' on your Menu Bar
- 'Open Screen Definition'
- Double-click the 'SoW' folder
- Select the file: sow_increasing earnings

Big Money

I've published this screen numerous times in our 'Screen of the Week' articles and this is one of my favorite strategies. In fact, if you're looking for a strategy that holds only a few stocks in your portfolio at any time (3), this IS my favorite strategy.

It's a price momentum screen that finds stocks on the move. (In fact, it looks for the 'top' % price gainers over the last 1 month, 3 month and 6 month periods.) But with a Price to Sales ratio added to it, these movers are still considered 'bargains'.

Parameters

➔ **Price/Sales ratio < .5**

(A low price to sales ratio is typically considered a good bargain, since the investor is paying less for each unit of sales. Another way of looking at this is that a Price/Sales Ratio of 1 means the investor is paying \$1 for each \$1 in sales. A P/S ratio of .5 means you're paying 50 cents for each \$1 in sales.)

➔ **Average Broker Rating < 2**

(Strong Buys and varying degrees of 'average' Strong Buys. Since brokers' ratings are typically skewed to the 'bullish' side, I want to make sure my picks have strong outlooks from the analysts' covering them.)

➔ **Average 20 Day Share Volume \geq 50,000**

(Average daily trading volume (over the last 20 days) is a minimum of 50,000 shares or greater. It has to be tradable.)

➔ **% Change in Price over 24 weeks -- Top# 20**

(Looking for the top 20 price performers out of the list of stocks that qualify the above parameters.)

➔ **% Change in Price over 12 weeks - Top# 10**

(Looking for the top 10 price performers out of the list of the 20 best from above.)

➔ **% Change in Price over 4 weeks - Top# 3**

(Looking for the 3 best price gainers out of that top 10 list from above.)

Results

(using a 4 week rebalancing period)

I ran a series of tests over each of the last 5 years (2001 thru 2005). I rebalanced the portfolio every four weeks and started each run on different start dates so each test would be rebalanced over a different set of four-week periods. This exercise was done to eliminate coincidence and verify robustness.

Over the last five years, this strategy has shown an average annualized gross return of 138.4% a year, with an average win ratio of 69%. And as the last parameter of the screen dictates, it always only picks 3 stocks each period.

In 2001, the average annualized gross return was 128.9%, with an average win ratio of 64%.

In 2002, the average annualized gross return was 262.1%, with an average win ratio of 70%.

In 2003, the average annualized gross return was 205.5%, with an average win ratio of 79%.

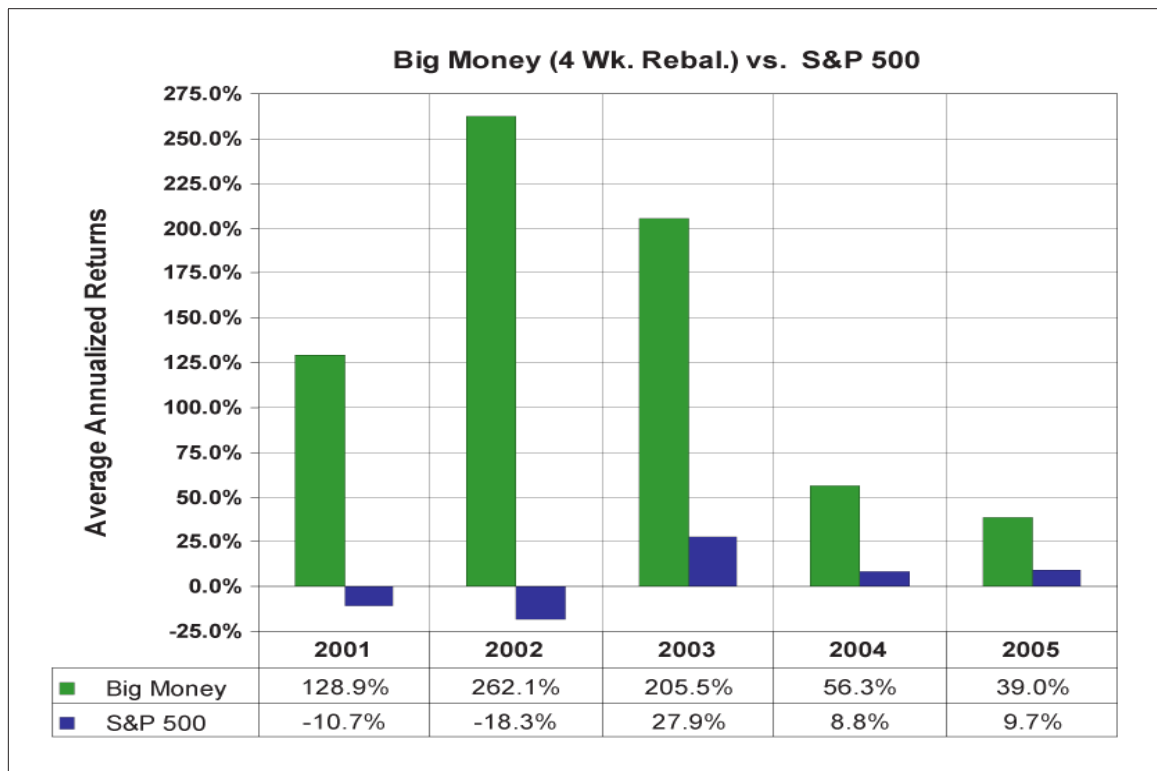
In 2004, the average annualized gross return was 56.3%, with an average win ratio of 65%.

And in 2005, the average annualized gross return was 39%, with an average win ratio of 67%.

**Over the last five years
(2001 thru 2005),
this strategy has shown
an average annualized gross
return of 138.4%* a year ...**

*** (4 week rebalancing period)**

(The below chart shows the average annualized returns.)



Hypothetical returns may not always be duplicated in the real world. There is risk of loss in trading stocks.

Results

(using a 1 week rebalancing period)

This screen also tests well with one-week holding periods too.

Big Money continued...

In fact, since it's essentially a price momentum screen, running it on a weekly basis lets you keep closer tabs on the price changes of the leaders.

Over the last five years (2001 thru 2005), this strategy has shown an annualized gross return of 145.2% a year, with an average win ratio of 61%. And again, whether it's rebalanced every 4 weeks or 1 week, it always only picks 3 stocks per period.

In 2001, the annualized gross return was 76.1% with a win ratio of 61%.

In 2002, it was up 263.7%, with a win ratio of 58%.

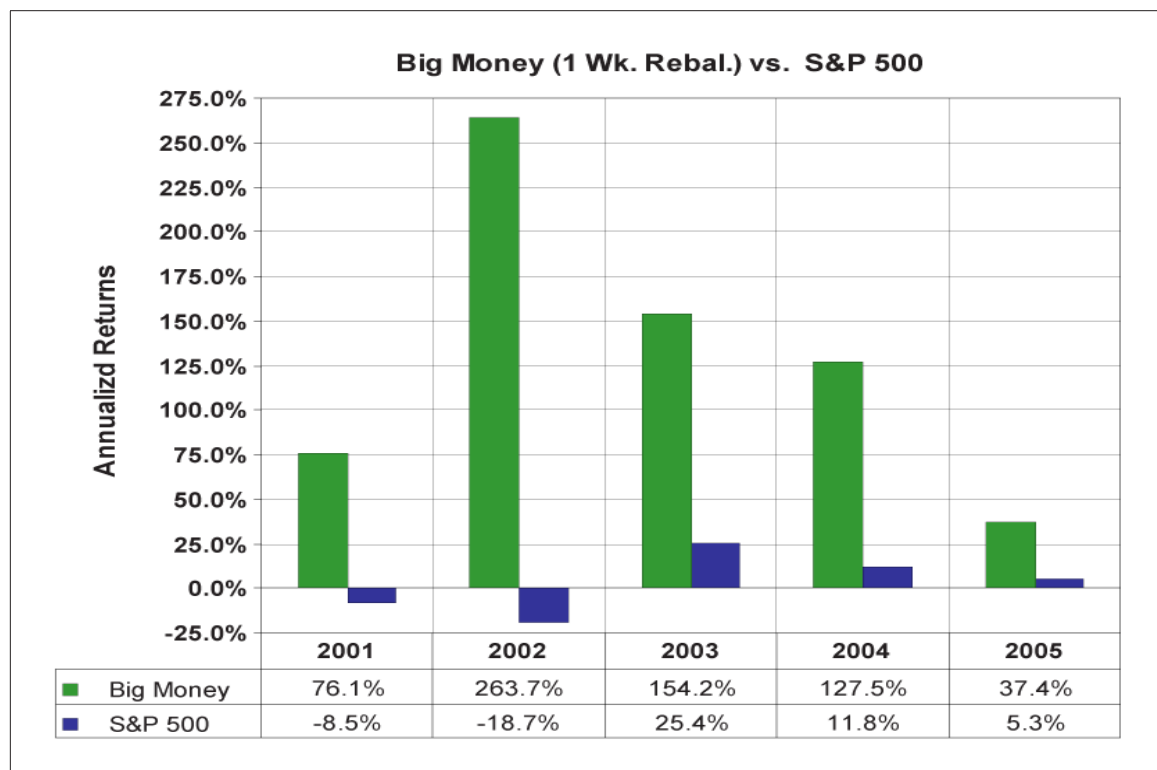
In 2003, it was up 154.2%, also with a win ratio of 62%.

In 2004, it was up 127.5%, also with a win ratio of 63%.

And in 2005, it was up 37.4%, with a 60% win ratio.

Using a 1 week rebalancing period over the last five years (2001 thru 2005), this strategy has shown an annualized gross return of 145.2% a year ...

(The below chart shows the annualized returns.)



Hypothetical returns may not always be duplicated in the real world. There is risk of loss in trading stocks.

An interesting observation to note, is that the 4-week outperformed the 1-week in 2001, and the 1-week beat the 4-week in 2004. But both approaches did equally as spectacular in 2002. And they both performed pretty spectacularly in 2003 as well.

But no matter how it was traded or when, all of the returns were quite impressive to stay the least.

Alternative Trading Methods

Even though I originally designed this screen to be rebalanced every 4-weeks, it also tests well on a 1-week basis too (as you can see).

I have also found that using a combination of both (4-week and 1-week holding periods) can also be very effective as well.

This is done by running the screen on a weekly basis, but holding the stocks for a 4-week period. In other words, you'd run the screen at the beginning of the week, buy all 3 stocks, and hang on to them for the next 4 weeks. Then, next week, you'd run the screen again, picking up any new stocks that made it thru, and being sure to hang on to those for the next 4 weeks. And you would do this week after week.

... using a combination of both (4-week and 1-week holding periods), can also be very effective too. Running the screen every week, but holding onto the stocks for a 4-week period.

Eventually, after each 4-week period is up, you'd run your screen again and see if those original stocks still qualify -- keeping the ones that did, selling the ones that didn't, and buying the new ones that now do.

So even though a 4-week holding period is being used, the screen is being run weekly and only a portion of the portfolio is being rebalanced each week.

Get It SoW

The Big Money screen can be found in the Research Wizard by going to;

- 'Screen' on your Menu Bar
- 'Open Screen Definition'
- Double-clicking the 'SoW' folder
- Selecting the file: `bt_sow big money`

Increasing P/E's for Stocks on the Move

Studies have shown that many of the best stocks, year after year, over the past decade, saw their P/E ratio's increase by more than 100% from their breakout point. (This is also evident (increasing P/E's) in the statistics presented in Chapter 2's 'Magic Numbers?' and Relative Valuations.)

A good screening tool can help you find these stocks early in their breakout cycle before they really take off.

Here's an example to explain this scenario. Say a stock price is at \$20 and its earnings over the last four quarters = \$1 per share. Then its P/E ratio will be 20. (\$20 divided by \$1 = 20)

If the earnings rise (to \$1.25 for instance) and the stock doesn't, the P/E ratio will fall. (\$20 divided by \$1.25 = 16)

**Studies have shown...
many of the best stock saw their
P/E ratio's increase by over
100% from their breakout point.**

If Earnings go up but Prices don't, the P/E ratio will decrease. *(But typically, as earnings increase, so should prices.)*

If the stock rises and its earnings stay the same, the P/E ratio will increase. So if the stock is now at \$30 and its earnings remain the same at \$1, ... the P/E ratio will have increased to 30 as well. (\$30 divided by \$1 = 30)

If Prices go up but Earnings don't, the P/E ratio will increase. *(But this scenario is probably short-lived because the demand for a stock (prices) only goes up when earnings are going up, or at least expected to.)*

But now let's say next quarter earnings come out and its four-quarter combined numbers show the EPS at \$1.25 with the stock increasing to \$30. The P/E ratio will now be 24. (\$30 divided by \$1.25 = 24 -- a 20% increase in its P/E ratio from the first example.)

If Earnings go up and Prices go up too, the P/E ratio will also increase. *(The interesting dynamic is that as earnings increase, so should prices. And as forecasts for continued earnings arrive, the demand for the stock should continue to send prices even higher. This type of scenario (**higher earnings and higher prices**) has longevity and is common in most trends.)*

This increase in price and earnings is an ideal way to spot stocks in favor and that are anticipated to continue to trend higher. And instead of looking for nominal P/E changes, screen for P/E increases in excess of 20% which should provide the greatest upside potential.

Just like a 20% increase in the price of a stock can alert you to a new potential uptrend, you can also use a 20% increase in the P/E ratio to alert you to potentially significant price and earnings events too.

**A meaningful increase in a
stock's P/E can potentially alert
you to a significant price
and earnings event.**

Parameters

When I first wrote about this in Jan. of 2003 in our 'Screen of the Week' series, the Screen I was using was:

→ **P/E(Recent) >= 1.2* P/E(Recent-3M)**

Which means current P/E's that are 20% or higher than their P/E's from 3 months ago.

→ **P/E(Recent) < 2* P/E(Recent-3M)**

I also included a limiting expression which made sure the current P/E's were not greater than 100% higher.

(It's important to note that most screeners don't have historical P/E ratios (or other historical measures for that matter), but the Research Wizard does. And with it, you can then compare an item's value to its value from a different time period. This is done in the Calculation Expression feature, and how the above items were created.)

The stocks also had to be at least \$10 or higher with an average daily trading volume of 100,000 shares or more.

→ **Price >= \$10**

→ **Average 20 Day Share Volume >= 100,000**

In future articles, I added some additional filters to the screen, ensuring that all of the stocks saw an increase in their earnings. (If prices are rising without an increase in earnings too, there's no real reason for prices to continue to rise.)

→ **EPS Q(0) > EPS Q(-1)**

I wanted to see an increase in the most recently completed Quarter's Earnings over the previous.

→ **EPS Q(-1) > EPS Q(-2)**

And an increase in the Quarter-over-Quarter's Earnings before that.

And for good measure, I wanted;

→ **EPS F(0) > EPS F(-1)**

The most recently completed Annual Earnings to be greater than the Previous Year's Earnings.

→ **EPS F(1) > EPS F(0)**

Along with projections for This Year's Earnings to be greater than Last Year's.

I also dropped the minimum price down to \$5 or greater, but kept the average 20 day share volume at 100,000.

→ **Price >= \$5**

→ **Average 20 Day Share Volume >= 100,000**

Use this screening strategy alone or with other criteria to help spot winning stocks BEFORE they become big winners!

Get It SoW

This screen is available in the Research Wizard by going to;

- 'Screen' on your Menu Bar
- 'Open Screen Definition'
- Double-clicking the 'SoW' folder
- Selecting the file: sow_increasing pe

Cheap Stocks and Big Returns (a.k.a. Breakouts)

This screen is also one of my favorites and one that I wrote back in 2001.

The premise behind this screen is to try and find cheap stocks (stocks at or less than \$15) that are trading at (preferably, consolidating at) just under their 52 week high, in an effort to 'get on board' before they break-out to new highs.

In other words, I want the stocks to be near their highs, but most of all, I'm looking for stocks that have been turned back from their recent highs, ... have consolidated their advances on their trek back to those highs, ... and are just now starting to make a run at their 52 week high again.

I'm a big fan of getting into basing patterns (relatively narrow trading ranges) after an uptrend has been established. Especially near recent price highs, since stocks making new highs tend to make even higher highs.

And while it's true, some of the stocks that make it thru this screen have already broken-out, I have found this screen to be an ideal strategy for finding low priced stocks with a high probability of success.

I have found this screen to be an ideal strategy for finding low priced stocks with a high probability of success.

Parameters

- ➔ **Price \leq \$15**
(Cheap stocks.)
- ➔ **Zacks Rank = 1**
(This helps solidify the current earnings picture.)
- ➔ **Current Price/52 Week High \geq .90**
(They have to be trading within 10% of the 52 Week high.)
- ➔ **% Change in Price over 4 Weeks \geq 10% but not more than 20%**
(I'm looking for stocks on the move, but not ones that have moved so much, so quickly, a correction could be in store. Since 10% seems to get people's attention while follow-thru at 20%, typically signals the beginning of a 'trend' or a 'breakout', I wanted to be alerted BEFORE a breakout was seen.)
- ➔ **Beta \leq 2**
(Active stocks are good, but wildly volatile ones are not.)

The Results

I ran a series of tests over each of the last 5 years (2001 thru 2005). I rebalanced the portfolio every four weeks and started each run on different start dates so each test would be rebalanced over a different set of four-week periods. This exercise was done to eliminate coincidence and verify robustness.

Over the last five years, this strategy has shown an average annualized gross return of 66.2% with an average win ratio of 74%. And it holds on average of only 3-5 stocks in your portfolio each month.

In 2001, the average annualized gross return was 55.7%, with an average win ratio of 70%.

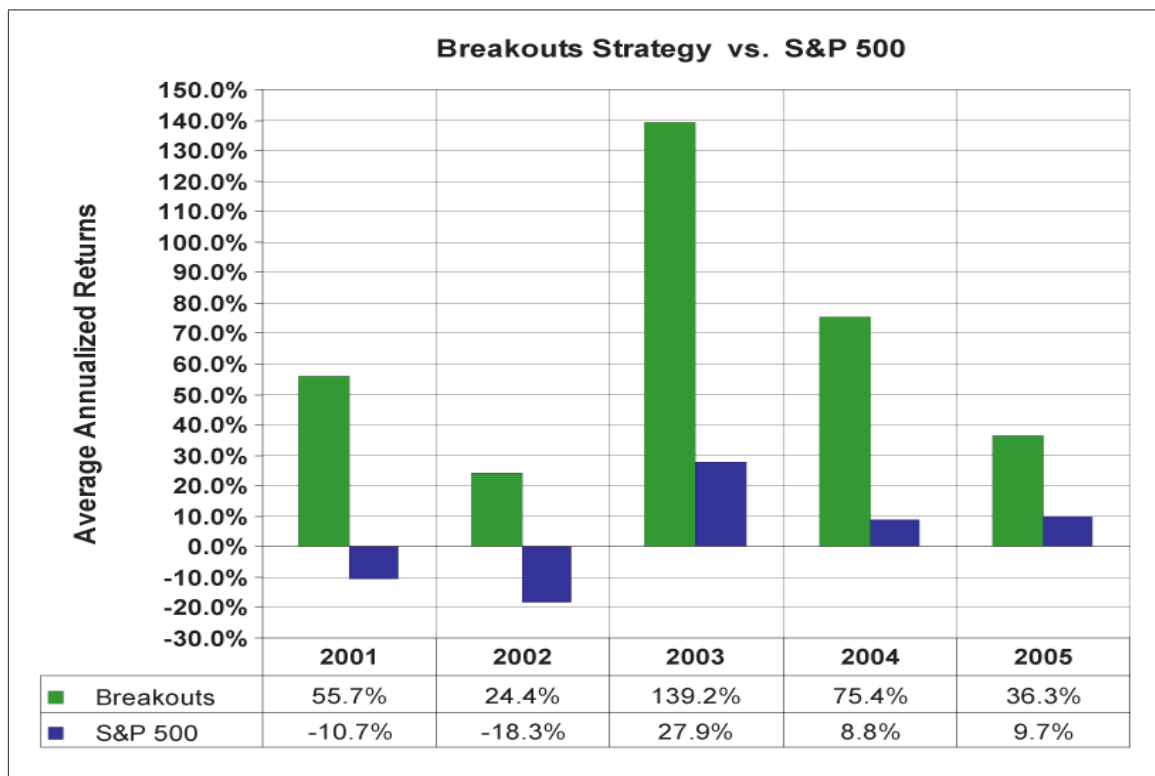
In 2002, the average annualized gross return was 24.4%, with an average win ratio of 66%.

In 2003, the average annualized gross return was 139.2%, with an average win ratio of 88%!

In 2004, the average annualized gross return was 75.4%, with an average win ratio of 75%.

And in 2005, the average annualized gross return was 36.3% with a 69% win ratio.

(The below chart shows the average annualized returns.)



Hypothetical returns may not always be duplicated in the real world. There is risk of loss in trading stocks.

This strategy also tested well using a one-week rebalancing period. In fact it does fantastic.

Get It SoW

This screen is available in the Research Wizard by going to;

'Screen' on your Menu Bar

'Open Screen Definition'

Double-clicking the 'SoW' folder (SoW -- short for 'Screen of the Week')

Selecting the file: bt_sow breakouts

Additional Comments

Note: Even though this screen will generally produce on average of 4-5 stocks per period, there will be times where literally no stocks will qualify due to the narrowness of the parameters.

Tip #1: But since this screen has such a great track record and such a high success rate, if nothing comes through on my first pass, I'll run it day after day, until the screen spots something.

(This is one of the reasons why I run so many backtests using different start dates in my analysis. I want to make sure that the strategy has a history of picking good stocks 'at any time' as opposed to just the '3rd Monday of every other month', etc.)

Tip #2: Even though I designed this screen to be a trading strategy, I'll also use this screen as a high probability stock picker for when I have excess cash on the side and I'm looking for cheap stocks to add to my portfolio.

Something for Everyone: Growth AND Value

This screen has something for both Growth Investors and Value Investors alike.

Growth Investors focus on companies with great earnings growth, but that alone isn't good enough for many stock pickers any more. They want good growth at reasonable prices (low P/E's).

And while **Value Investors tend to focus on low P/E stocks, too many are low because they lack earnings power.**

So instead, try combining the best of both worlds and focus on the companies with the highest growth rates with the lowest P/E ratios. (If you're looking for stocks with low P/E's, this is one of the best ways to find them.)

And this screen does just that.

... the best of both worlds
... focus on companies with the
highest growth rates with
the lowest P/E ratios.

Parameters

- ➔ **Companies with 5 Yr. Historical Growth Rates to be in the top 20 percentile of all companies.**
(Using a Uniform Rank of 1-99 (99 being the best growth rates), I screened for stocks ranked 80 or better, meaning they had growth rates better than 80% of all of the other companies.)
- ➔ **Companies that also happened to have the lowest P/E's too - lower than 80% of all other companies.**
(Using a Uniform Rank of 1-99 again (this time 99 having the lowest P/E's), I screened for stocks ranked 80 or better, meaning, they also had lower P/E's than 80% of all of the other companies too.)
- ➔ **Price \geq \$5**
(I then required those qualified stocks to be trading at or above \$5.)
- ➔ **Average 20 Day Share Volume \geq 100,000**
(With average daily trading volumes of 100,000 shares or more.)
- ➔ **Zacks Rank \leq 2**
(And a Zacks Rank of 2 or less. Only 'buys' and 'strong buys' allowed).

Results

I ran a series of tests over each of the last 5 years (2001 thru 2005). I rebalanced the portfolio every four weeks and started each run on different start dates so each test would be rebalanced over a different set of four-week periods. This exercise was done to eliminate coincidence and verify robustness.

Over the last five years, this strategy has shown an average annualized gross return of 41.4% with an average win ratio of 65%. This strategy holds on average of 15-16 stocks in its portfolio each month.

Something for Everyone: Growth AND Value *continued...*

In 2001, it showed an average annualized gross return of 42.6% with an average win ratio of 60%.

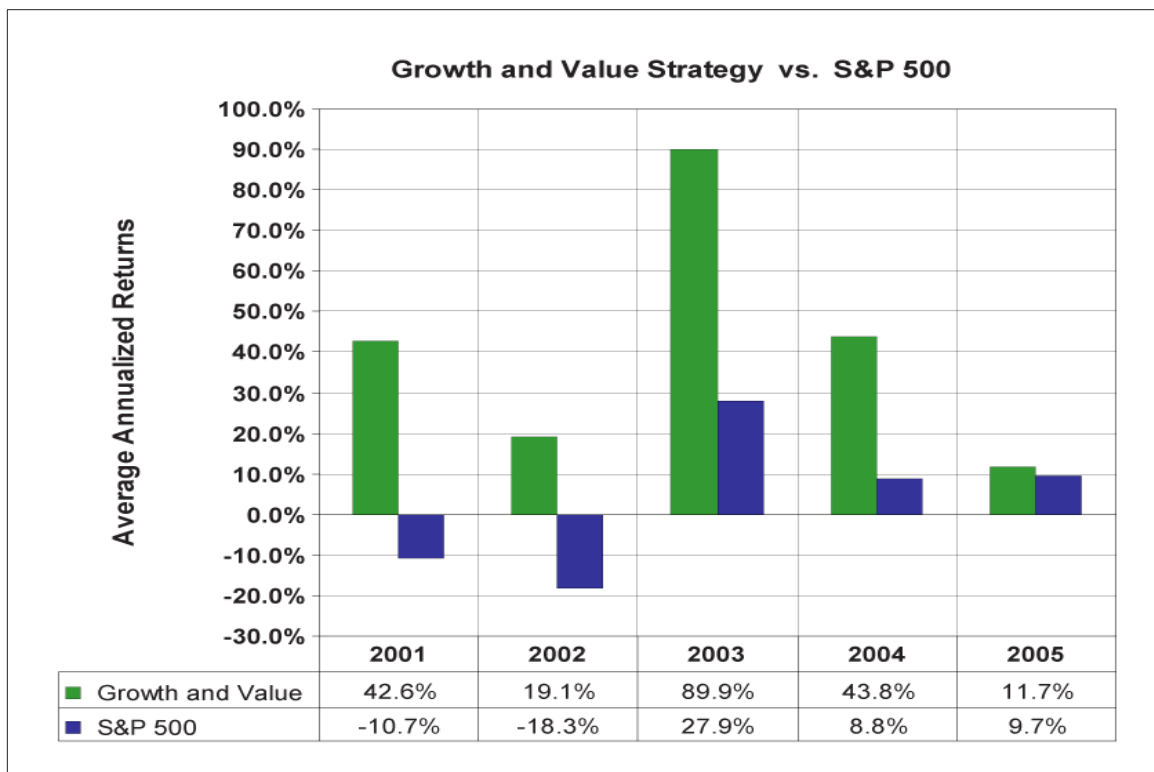
In 2002, the average annualized gross return was 19.1% with a 69% win ratio.

In 2003, it produced an average annualized gross return of 89.9% with a 71% win ratio.

In 2004, it produced an average annualized gross return of 43.8% with a 71% win ratio.

And in 2005, it showed an average annualized gross return of 11.7%, and a 53% win ratio.

(The below chart shows the average annualized returns.)



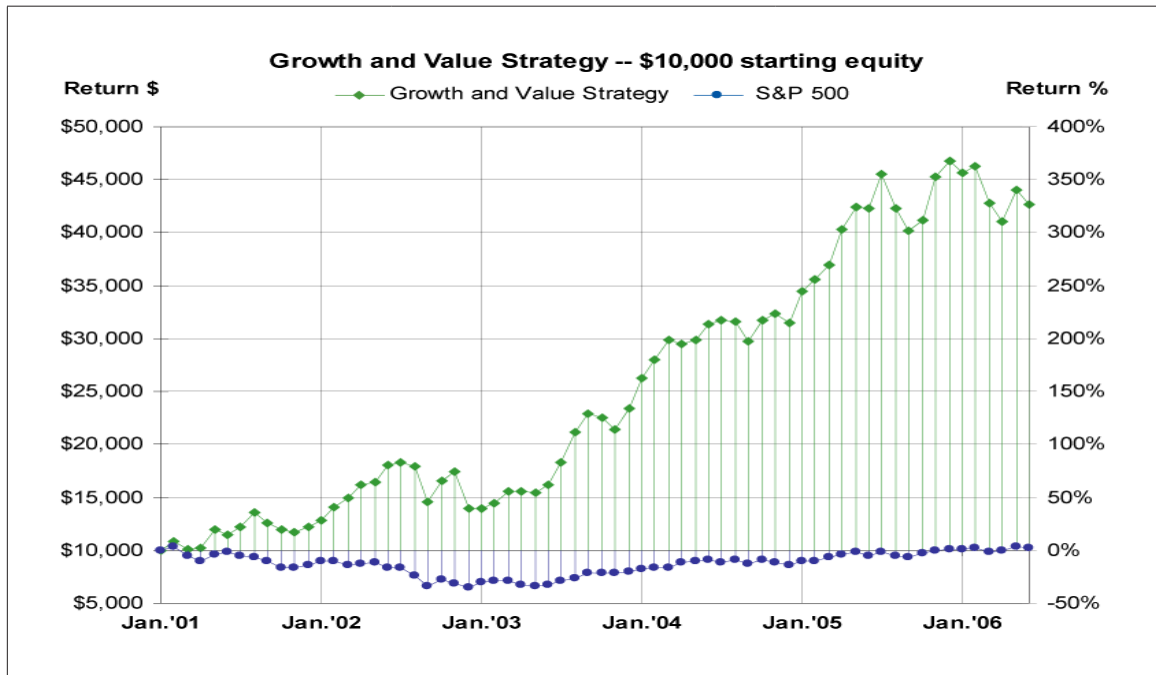
Hypothetical returns may not always be duplicated in the real world. There is risk of loss in trading stocks.

For further illustration, I ran a continuous backtest starting on 1/5/2001 and going thru 12/30/2005, rebalancing the portfolio every four weeks. I also compounded the periods' returns to greater simulate how one would invest. (For example; if the starting equity was \$10,000 and the first period's gain was -10% (\$1,000), the next period would invest with \$11,000. If that next period is off 10% (-\$1,100), the period after that would invest \$9,900.) Also, in this illustration (and all of the other performance illustrations), no consideration has been given to commission costs, slippage or any other real-world constraints.

The total return from its start date on 1/5/01 thru 12/30/05, is 326.1%, with a win ratio of 65% (42 winning periods out of 65 total periods). A hypothetical \$10,000 invested (sans commissions and etc.), increased to \$42,611.65. By comparison, a hypothetical \$10,000 invested in the S&P during that time would have increased to only \$10,281.83.

Something for Everyone: Growth AND Value *continued...*

(The below chart shows the compounded returns from 1/5/2001 thru 12/30/2005.)



(1/5/2001 thru 12/30/2005)	Growth and Value Strategy	S&P 500
Compounded Total Return	326.1%	2.8%
\$10,000 Starting Equity	\$42,611.65	\$10,281.83
Win Ratio	65% (42/65)	
Avg. # of Stocks Held	15-16	

Hypothetical returns may not always be duplicated in the real world. There is risk of loss in trading stocks.

This is an excellent Growth and Value screening strategy to find new stocks with a high probability of success.

Check it out for yourself.

Get It  SoW

This screen can be found in the Research Wizard by going to:

- 'Screen' on your Menu Bar
- 'Open Screen Definition'
- Double-clicking the 'SoW' folder (SoW -- short for 'Screen of the Week')
- Selecting the file: sow_growth and value

More on Ranking

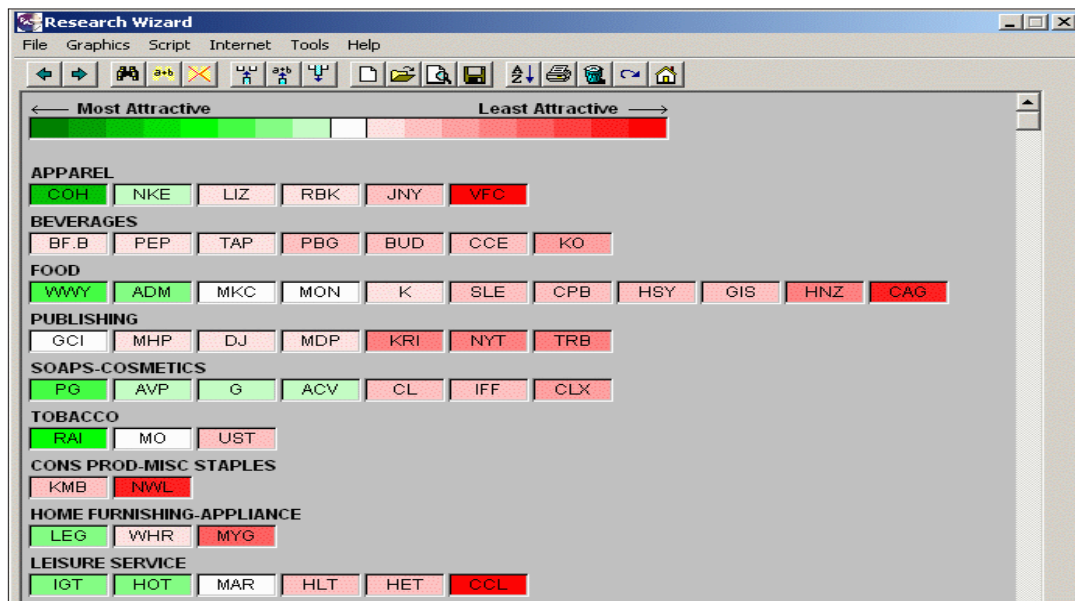
The above screen uses just one of the more sophisticated Ranking methods found in the Research Wizard. (Uniform, along with Histogram and Ordinal -- the definitions of which and how they can be used are found in the User Manual.)

But there's also a quick and easy visual Ranking method too that can be instantly applied to any screen, report or portfolio with a click of the mouse. And it's called 'Hot Maps'.

Check and see where your stocks rank out of all of the other stocks out there, as well as in your own portfolio and screens.

See which stocks are the best and which stocks are the worst as the Hot Maps graph, assigns varying shades of green for most attractive and varying shades of red for least attractive. (See below.)

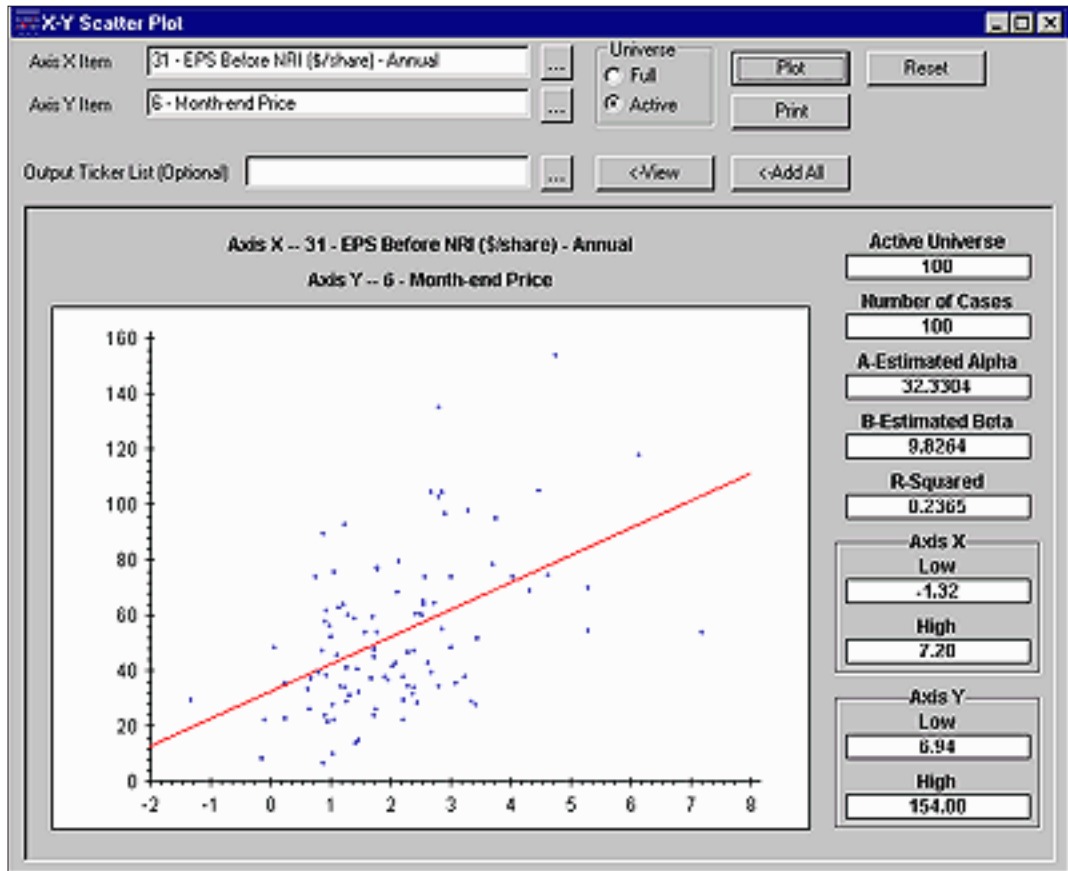
(Screen shot example of a Hot Maps graph.)



The program also lets you chart your own regression analysis studies too with its 'Scatter Plot' feature. (See below.)

Something for Everyone: Growth AND Value *continued...*

(Screen shot example of a Scatter Plot chart.)



Very cool.

Creating a Custom Consensus of Your Winningest Screens (a Screen of Screens)

Every week in our 'Screen of the Week' articles, I either go over a unique way to screen for stocks or I'll publish a proven, profitable screening/trading strategy.

For many customers interested in these trading strategies, the only real decision is in choosing which one(s) to use.

Well instead of choosing just one, why not look at them all and create a Custom Consensus of some of our (or your) winningest strategies.

This too is a great strategy for picking winning stocks from many diversified approaches. Because aside from using the Zacks Rank for many of the screens, there are many other filters layered on top in each screen to find the best stocks from different styles.

Most of the screens I'm currently using in my Custom Consensus strategy are outlined in this book. But they all come loaded with the Research Wizard program. (And many more.)

Instead of choosing just one strategy ... create a Custom Consensus of our (or your) winningest strategies.

The Consensus Strategy Screens are:

- ✓ Big Money (Chapter 6)
- ✓ Breakouts (Chapter 8)
- ✓ EPS Growth / Past and Present (Chapter 11)
- ✓ Filtered Zacks Rank (Chapter 3)
- ✓ Increasing Cash Flows (Chapter 11)
- ✓ PEG (SoW version not in book, but in program)
- ✓ ROE (Chapter 4)
- ✓ Sales and Margins (Chapter 11)
- ✓ Upgrades and Revisions2 (Chapter 1)

Creating a Custom Consensus of Your Winningest Screens *continued...*

The concept of the Consensus strategy is pretty easy but very powerful!

Simply run each screen (generating a list of qualified tickers for each screen), and then count how many times a stock appears in all of those screens.

If it appears two or more times (i.e., shows up on two or more screens), it's now a part of the Consensus strategy/ portfolio.

I'll typically create this list 'old school' style, by simply writing down the stocks that qualify each screen on a piece of paper and then circling the duplicates. Then I'll simply list those dupes and voila. (See the image to the right.)

(And while it's not necessary to construct the portfolio, I'll usually tally up the total number of times they came thru. But no one stock should get a greater weighting than another just because it came thru more times. They should all be invested in equally.)

Now even though two passes is enough for me, I have some customers who run additional screens and require a stock to qualify three or four times before it's considered a 'Consensus' pick. (But again, two passes is fine for me.)

By the way, you don't have to write your lists down on a piece of paper if you don't want to. You can also export your stock lists to Excel (or Notepad or Wordpad, etc.), and tally it all up in there.

Moreover, with the Research Wizard's 'Scripting' feature, you can run as many screens as you want and have each list automatically exported to an Excel file or even printed, all with one simple click of a button.

for Mon. (week 9) 1/24/05

Big #	Brkads	PEh	ROE
DN44	CAN	6613	CMC ³
PKY		PKX ¹	PKX ²
CMC		FCL	A41 ¹
UPR2	INC C.F.	FITZK.	S&M
CAC	GIL	BEBE	SLK ²
NOBH	ENL	STX	NOBH ³
AAA	CMC ³	QCLC	MBNM ³
MBNM ¹	ELK ¹	DOX	VOL ²
JEAT	A41 ²	HLIT	VTIV ²
KNX	NOBH ²	KNX ²	
NSC	MBNM ³		
REGN	AAA		
PKY	VOL ¹		
SFCC	VTIV ¹		
TOL			

CMC	3	MBNM	3	ELK	2
PKX	2	KNX	3	VOL	2
A41	2	RCK4	2	VTIV	2
NOBH	3	SFCC	2		
		TOL	2		

Additional Comments

As you can see, it's quite easy to create a 'Custom Consensus' or a 'Screen of Screens' strategy. You just have to make sure you've got good strategies to draw from.

And while that's no guarantee of success; strategies that have proven to pick good stocks in both up markets and down markets in the past, should continue to do so in the present and in the future.

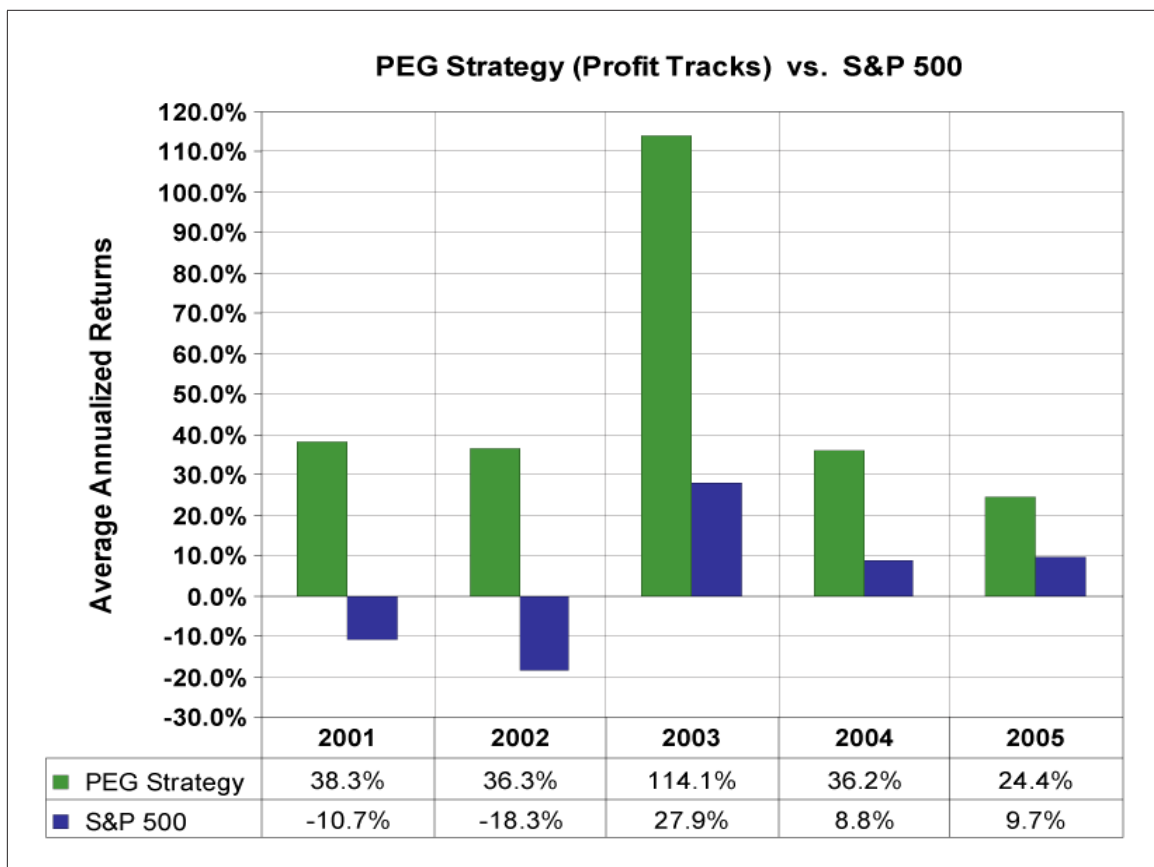
1

More Winning Strategies

As I mentioned in the Introduction, we purposefully narrowed this book's focus down to only ten of our best screening strategies. But since there are many other strategies that have done quite well and that are popular with our users, I decided to list some of them along with their historical performance.

PEG

(earnings growth at reasonable prices)

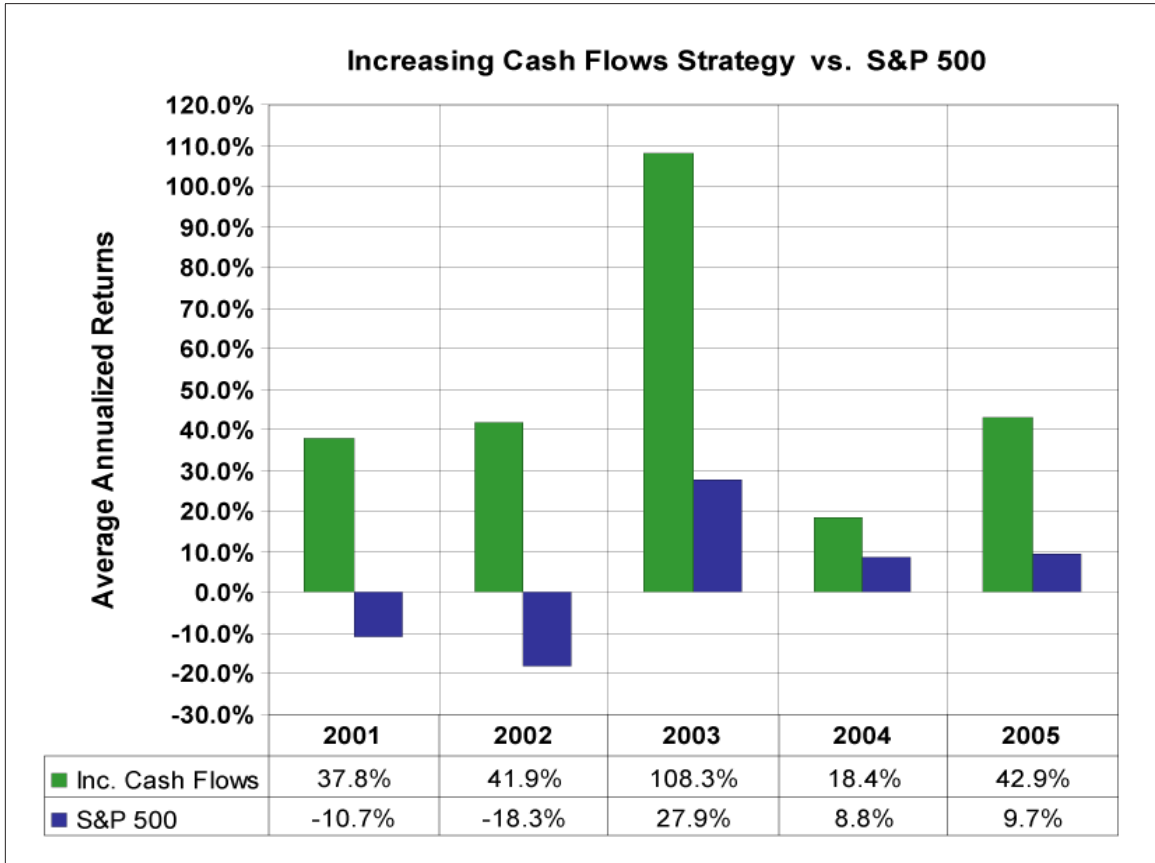


Get It  Profit Tracks

file: peg

Increasing Cash Flows

(cash is king)

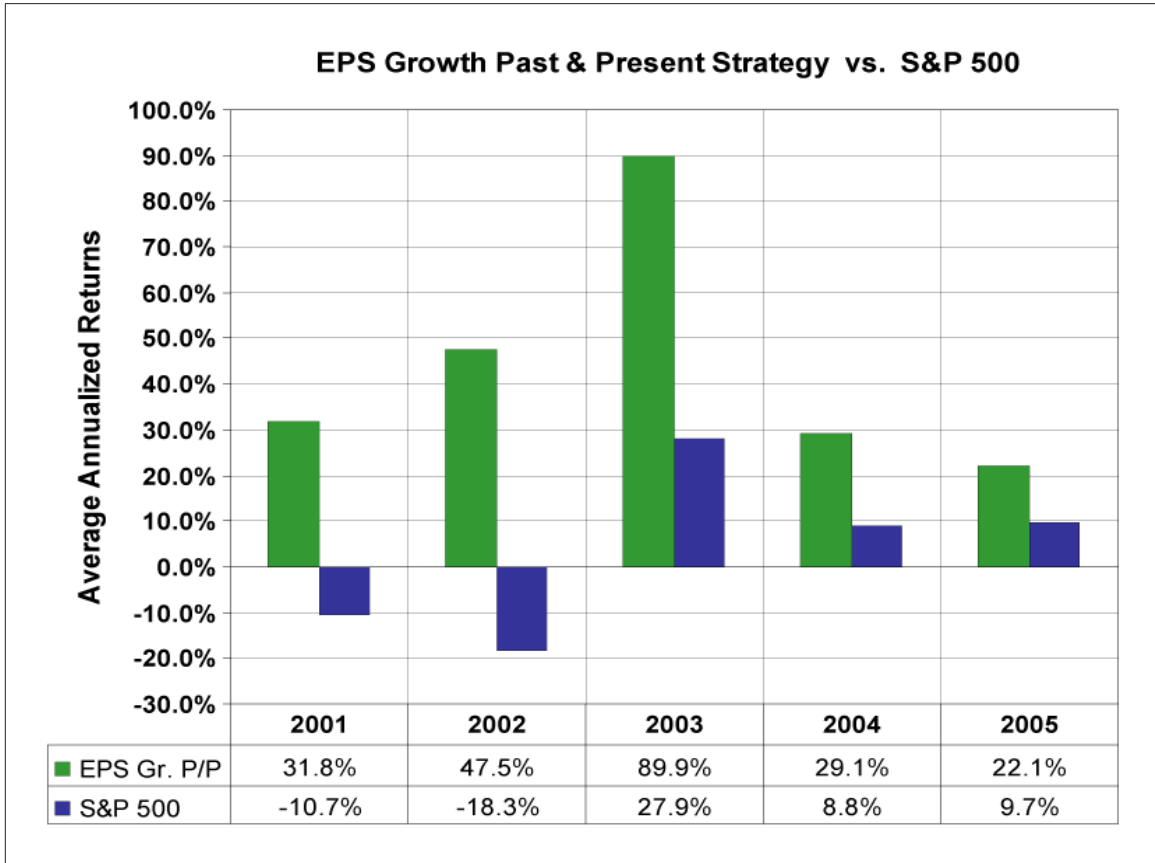


Get It  SoW

file: bt_sow_increasing cash flows

EPS Growth, Past and Present

(strong earnings growth, then and now)

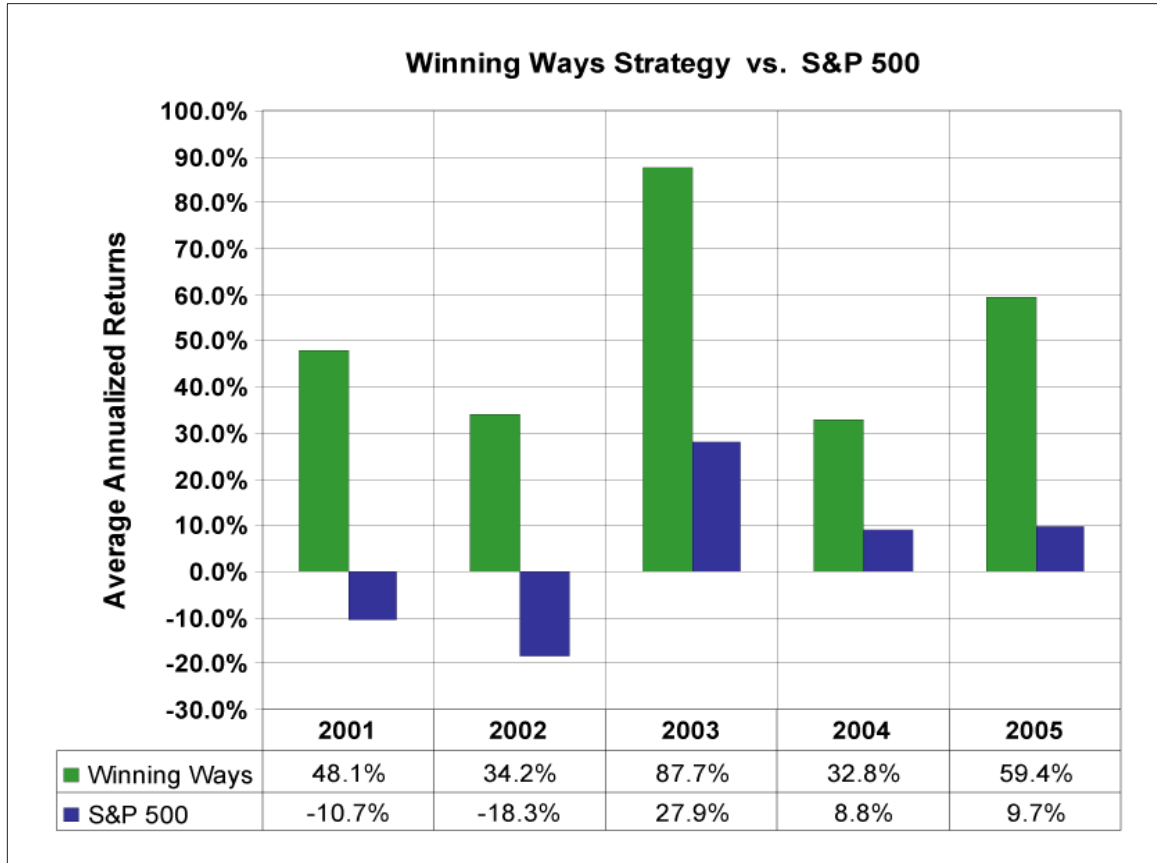


Get It  SoW

file: bt_sow_eps growth past and present

Winning Ways

(winning ideas from some of our winnigest strategies)

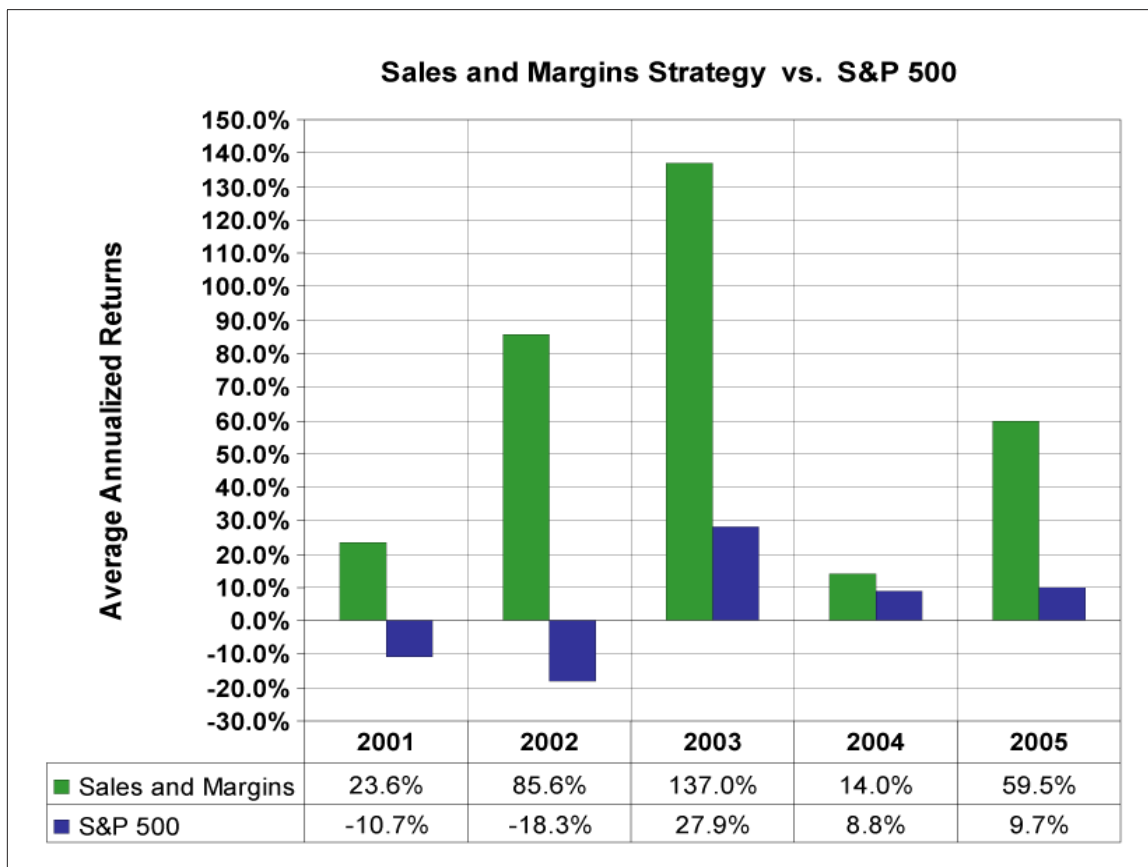


Get It  SoW

file: bt_sow_winning ways

Sales and Margins

(money made and money kept)



Get It  SoW

file: bt_sow_sales and margins

Additional Comments on Backtesting

A question that I get asked a lot in regard to the backtester is;

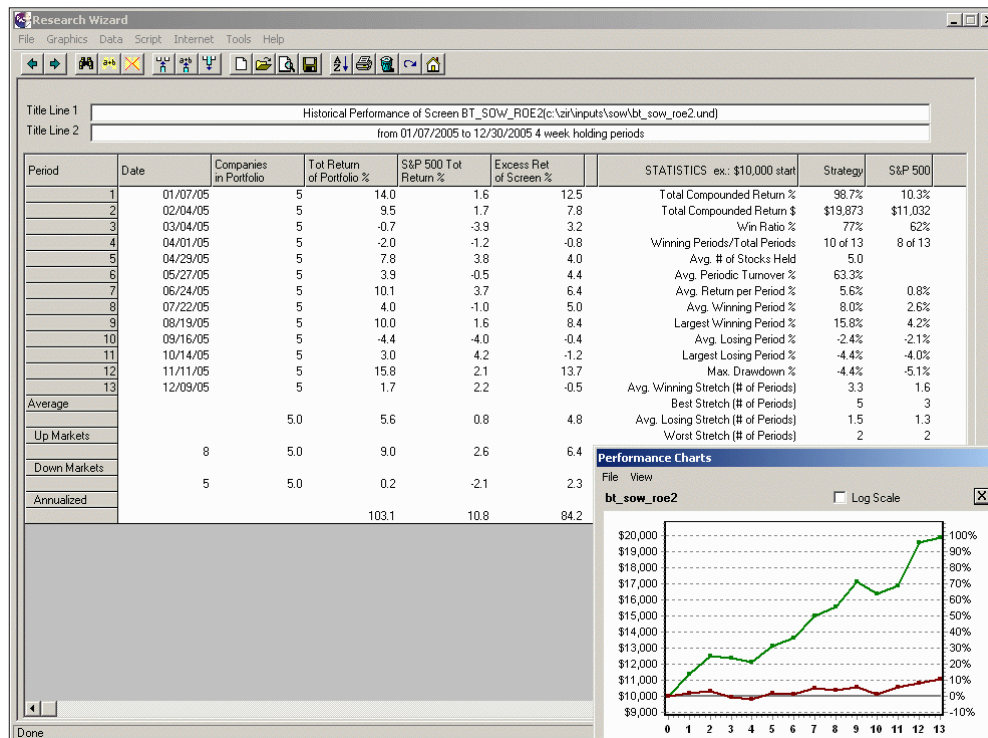
“Will it also show the stocks that came thru in each historical period?”

The answer is;

Yes!

It'll give you a summary of your strategy's performance, and also break it down period by period. (See below.)

(Screen shot of Backtest report.)



And you can also see what stocks came thru in those periods too within the 'Backtest Details' window. You can take a look at one period at a time or all of the periods at once. It even shows you how many times a stock qualified your screen and how many consecutive periods it qualified too so you can determine its turnover. (See the next page for a screenshot of the "Backtest Details" window.)

(Screen shot of the 'Backtest Details' window.)

The screenshot shows a window titled "Backtest Period Details". It contains the following text:

Ticker Data
BT_SOW_EPS GROWTH PAST PRESENT(c:\zir\inputs\sow\bt_sow_eps growth past present.und)
from 01/02/2004 to 12/24/2004 4 week holding periods
Period #9: 08/13/04 - 09/10/04

Period	Date	Ticker	Ticker Return %	Portfolio Return %
9	08/13/04	CRDN	36.9	15.7
		ESE	15.7	
		PENN	6.1	
		QSII	0.2	
		RIMM	27.8	
		RSTI	15.4	
		VLO	3.3	
		WIBC	20.5	

CRDN is selected in 9 periods.
Around Period 9 CRDN is selected in 5 consecutive periods starting Period 7

Buttons: "Export to Excel" and "Close"

And all of the Backtest reports (along with any other data), can be easily exported to Excel with a click of a button.

And of course, once in Excel, you can then do even more analysis including creating charts and graphs like you've seen throughout this book.

You Can Do It!

Try out some of our strategies for yourself or create your own. And then backtest them to see how good they are.

Find the right stocks with right tools and **START MAKING BETTER DECISIONS TODAY!**

You can do it!

