



Uncovering and Trading Winning Stocks: A Guide to William J. O'Neil's Strategies

by Mary Ellen McGonagle

William O'Neil stands as a legendary figure in the investment world, renowned for his systematic approach to identifying market-leading stocks.

I was introduced to Bill O'Neil's strategy when I joined his company in the 1990's as an Institutional Marketing executive. For 15 years, I traveled the globe teaching his highly successful techniques to top fund managers around the world.

More recently, I've been integrating my work with fund managers to include working with self-directed investors. This has been very exciting! Today, I look forward to sharing O'Neil's winning strategies with you.

For those not familiar, in the 1960s, O'Neil developed the CAN SLIM system, a unique and comprehensive investment strategy that emerged from his extensive study of historical market leaders and the common characteristics they exhibited just before experiencing significant price appreciation.

I look forward to sharing those characteristics with you today.

Let's Start At The Beginning

A cornerstone of O'Neil's investment philosophy is the powerful combination of fundamental and technical analysis.

Complementing this, is technical analysis which focuses on the study of stock price and trading volume patterns, which are used to determine the optimal *when* for buying and selling shares. This dual approach offers a holistic view, ensuring that you're not only selecting fundamentally sound businesses, but are also timing their entries and exits strategically.

By combining these two distinct analytical approaches, the strategy reduces the risks associated with relying solely on one type of analysis. For instance, a company might appear fundamentally strong, but if its stock is in a downtrend or lacks institutional interest, a purely fundamental approach could lead to premature or poorly timed investments.

O'Neil's CAN SLIM acronym provides a systematic checklist for identifying stocks with the highest potential for significant price appreciation. Each letter represents a crucial characteristic that has been historically observed in top-performing companies.

Table 1: CAN SLIM Criteria at a Glance

Component	Key Criteria/Requirement
C: Current Quarterly Earnings Per Share	Minimum 25% increase from prior year's same quarter; 50-100%+ preferred. Ideally rising quarter-by-quarter. ROE 17%+ for sustainability.
N: New Products, Services, Management, or New Highs	Introduction of game-changing new products/services, new management, or stock breaking out to new 52-week highs.
S: Supply and Demand	Scarce supply of shares (e.g., low share float, <50M shares outstanding) coupled with strong investor appetite. Company share repurchases are a positive sign.
L: Leader or Laggard	Market leader within its industry, not a laggard. Relative Strength (RS) or Relative Strength Value (RSV) of 80 or higher.
I: Institutional Sponsorship	Sponsorship by a few institutions with recent above-average performance. Avoid stocks that are over-owned by institutions.
M: Market Direction	Overall market is in a confirmed uptrend (bull market). Avoid investing in bearish markets.

Technical Analysis: Timing Your Entries with Chart Patterns

In addition to the criteria listed above, O'Neil heavily emphasized technical analysis and chart patterns to identify optimal buy points and confirm fundamental strength. These patterns show consolidation where institutions accumulate shares before a price advance, enabling precise timing for entry when a stock is poised for a breakout after digesting prior gains.

While the Cup-with-Handle and Flat Base are 2 primary patterns, O'Neil also identified other significant consolidation patterns, such as the Double Bottom.

Risk Analysis: Preserving Capital To Ensure Long-Term Capital Growth

O'Neil's strategies prioritize risk management and profit-taking for long-term capital growth. He stated, "The whole secret to winning big in the stock market is not to be right all the time, but to lose the least amount possible when you're wrong," emphasizing capital preservation.

O'Neil's non-negotiable 7-8% stop-loss rule advises cutting losses at 7-8% below the buy point to protect capital. His research showed stocks falling over 8% rarely become winners. Mathematically, large losses are harder to recover.

Adhering to this stop-loss strategy allows investors to be wrong 50% of the time and still profit, preserving capital for new op-

portunities.

The Importance Of Remaining Diligent

O'Neil's method requires engagement and adaptation, including monitoring market conditions, company fundamentals, and chart patterns. The market's dynamics require an ability to shift according to changing data and sentiment.

CAN SLIM's rules assist in adapting positions based on real-time market feedback. A shift to a downtrend, for instance, necessitates a defensive posture regardless of individual stock merits. Success requires ongoing engagement and willingness to adjust based on market feedback.

Conclusion

William J. O'Neil's CAN SLIM strategy is a disciplined, evidence-based approach to stock investing.

It combines fundamental strength, technical timing, and rigorous risk management to identify and capitalize on market-leading growth stocks. This strategy integrates market dynamics, company performance, and investor psychology. Your consistent success will come from systematic execution and adherence to proven principles.

During my time advising top fund managers who utilized this strategy, two of them were fund managers of the year with Morningstar. This proven strategy has also helped many individual investors such as those who've subscribed to my courses and twice weekly newsletter over the past 10 years.

About the author: Mary Ellen McGonagle is a professional investing consultant and the president of MEM Investment Research. After ten years of working on Wall Street, Ms. McGonagle left to become a skilled stock analyst, working with William O'Neil in identifying healthy stocks with the potential to far outpace the markets.

She has worked with clients that span the globe, including big names like Fidelity Asset Management, Morgan Stanley Merrill Lynch and Oppenheimer.

She now offers her high-level expertise to investors throughout the world, writing her twice weekly investment-focused newsletter The MEM Edge Report. Mary Ellen has an incredible track record and knows what to look for - combining fundamental and technical information with a heavy dose of intuition.

[Link to MEM Investment Research Website](#)

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