

Finding Next Year's Best Performing Stocks

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With 2007 coming to a close, many will take the opportunity to review the year's performance and compare individual results with the major benchmarks and indices. Not particularly happy with your results? What could we do better this next year to make an improvement? This kind of periodic review for areas where we can improve our process is healthy for any disciplined practice, including achieving and exceeding our investment goals. Often times we are too close to the details to make any breakthrough observations. We sometimes need to look at things differently, inside out, up-side down, etc., to glean that simple gem of an idea that becomes our breakthrough. Here's one approach that will place you onto the path along with next year's best performing stocks.

Over the years I've been driven by the quest to find the best analytical methods to building specific investment strategies that help to put the probabilities for success in my favor. One year, while pondering the question of how to latch onto a set of the best performing stocks or funds, I had my breakthrough. Of course I started with things like company fundamentals, or fund performance data, but while those alone are good starting points, they are never enough. We can find all kinds of great stocks and funds that have good fundamental data to support them but there are still hundreds and thousands to pick from that may still end up with lackluster performance. So, I reflected on the teachings of Steven Covey in his book: "Seven Habits of Highly Effective People". In this case Habit #2: Begin with the End in Mind. Instead of looking for ways to identify great performing stocks from the beginning, I decided to examine the group of best performing stocks for the past year to identify what they all have in common, if anything. Once I could identify that, then the problem is half solved.

I began my review and quickly determined the one and the only one thing these special group of issues have in common. It's so simple yet I couldn't see it before I changed my perspective. What's the single element that all of the best performing stocks and funds have in common? Without fail this will always be true. The answer is: They all keep going up in price. Now that may sound obvious, but by definition, it is the most important thing to use when identifying and selecting stocks and funds that will become next year's best performers.

So how do you implement this new knowledge? Simple. Start by watching for stocks and funds that are making new highs. The time period you use is somewhat arbitrary but to keep things simple and consistent I look for issues making new 6 month and 12 month new highs. This group of issues then becomes your universe of issues to consider. Sure, we still will want to select great companies with solid fundamental performance data, but this approach can greatly narrow your search.

For example: Let's look at a few of this year's best performers (past 52 week price gains as of 12/24/07).

ASTI up 665%
ONXX up 437%
JRJR up 415%
RICK up 399%
TRCR up 396%
ARTW up 395%
CF up 357%
CEA up 342%
DRYS up 329%
TRA up 329%
MOS up 326%
GHM up 309%
MTL up 307%
GMO up 300%
TNH up 292%

Throughout the year each of these has made progressive 6 and 12 month new highs. By examining the price charts on each of these you can easily identify prime buy spots where price advanced above previous recent new highs and later achieved renewed technical support leading to further advance. While we may not catch the full price advance movement, we can clearly see that a selection strategy based on stocks making new highs will keep us on the path with next year's best performers.

Finding stocks that keep making these new highs day after day, week after week is what's most valuable. Over time we will begin to see some frequently recurring stocks and those are the ones to pay attention to and consider taking an initial position.

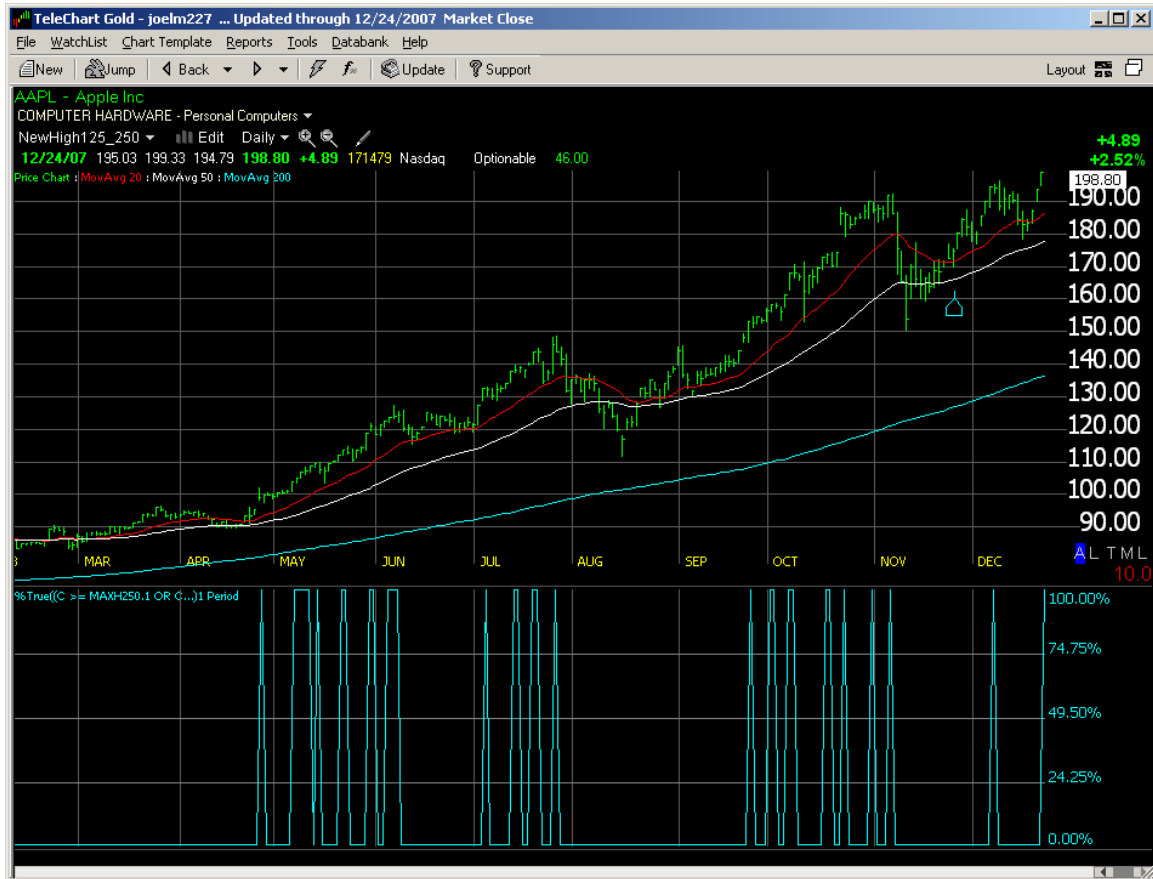
Those with access to a stock charting program such as Worden Brothers TeleChart (<http://www.worden.com>) can greatly simplify the process of identifying these stocks. The following PCF formula can be used to quickly scan stocks making these new highs:

$(C \geq \text{MAXH}250.1 \text{ OR } C > \text{MAXH}125.1) \text{ AND } \text{AVGV}30 > 1000$

Here, we look for stocks with a closing price making a 1 year (250 day) or 6 month (125 day) new high. We also test to ensure an adequate average trading volume greater than 100,000 shares/day. This produces a handy list of stocks each day whose charts can quickly be viewed for interesting breakouts and setups.

You can also apply the formula directly in a chart template as a %True Indicator to obtain a historical view of the frequency of recurrence in meeting the new high criteria. This is helpful when scanning through a quick visual review of the charts that show up on today's listing. For example, look at AAPL which initially broke out to a new high in

April 2007 at around \$100.00/share. It has gone on making a succession of new highs doubling its price by year end.



So while we embark on a new year, make a resolution to keep an eye on these issues that are making new highs. Combined with a good exit strategy such as RSMA, or even a simple trailing stop, you will soon notice your own portfolio doing the same... making new highs and outperforming the general markets.

Happy New Year,

Joel

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