Brilliant investing strategy - "CANSLIM"

What is the CANSLIM strategy?

CANSLIM is an investing strategy that uses a combination of fundamental and technical analysis to find out stocks that grow faster than the average. It is a bullish strategy for fast markets, which was introduced by the legendary investor and stockbroker William J. O'Neil in his book "How to Make Money in Stocks: A Winning System in Good Times and Bad".

C-A-N-S-L-I-M is nothing but an acronym of the seven fundamentals of selecting outstanding stocks.

C - Current quarter earnings

'C' - stands for current quarter earnings. To start with, first examine the quarterly earnings that a company reports and compare it with the same quarter of the previous year. We would like to emphasize the word "Earnings" i.e., Earning Per Share, and not profits or sales. EPS is basically earning per share. So, if a company has 100 million shares and profit for that quarter is $ 1 billion,

EPS = $1 billion ÷ 100 million = $ 10

A company whose EPS increased substantially compared to the previous year's same quarter passes the criteria. What can this substantial growth be? 5 %? 10 %?

Well, NO!!!!! The earnings should have increased by at least 20%.

A - Annual earnings

Companies report their annual earnings at the end of the financial year. If a company's annual earnings are increasing for every consecutive year, that too for a period of 5 years, then the company is worth considering. In annual EPS too, the growth should be more than 25%. Further, if a company's EPS increases exponentially, high P/E shouldn’t be given much importance.

N - New Product (or New Highs)

When a company introduces a new revolutionary product, the market doesn’t ignore it. Look at Apple Inc.. every year, they introduce new gadgets, and every year the share price of Apple is making new highs. So, search for a company that continuously keeps on innovating.

The reality is that most of us would refrain from buying a stock that makes 52-week high. Instead, we buy stocks trading between 52-week highs and lows, giving us the comfort that we are exposed to lesser risk. But a stock that trades at an all-time high could be the one you should invest in. Consistent compounders like Asian Paints & Bajaj Finance are good examples.

S - Supply and Demand

Everything in the market works on supply and demand. Actually, that is why the market exists. If you compare a large-cap company and a small-cap one, the large-cap would generally have more shares outstanding; in other words, the supply of shares of a large-cap is more than a small-cap. So, on that grounds, it is better to invest in a small-cap company than a large-cap.

However, that doesn't mean that large caps are not a lucrative option to invest in. The best prospect would be to find a small-cap company with higher promoter holding and lower debt to equity.

L - Leadership position in the industry

Always look for the stock of a company that is the market leader or is at least the second biggest player in that market. This is similar to what the prodigy, Warren Buffet, says: "Buy businesses with strong moats."

For example, if you want to invest in the rail business, consider IRCTC or if you want to invest in the stock depositories, then have a look at CDSL. There are many other businesses that have a higher market share in their respective industry.

Also, we can check for strong stocks in the industry by checking relative price strength. Hold on, here's what relative price strength means. Last year, we witnessed panic selling as the March lockdown was announced and the market bled red. But there were certain stocks which, if you had in your portfolio, you would have to bleed less. Let's understand this with an example. In March 2020, the NIFTY50 index was down by nearly 40%, but TCS plunged by just about 25%. This indicates that TCS is stronger compared to the market as a whole.

I - Institutional sponsorship.

Institutional sponsorship means any bigger player like mutual funds, corporate pension funds, insurance companies, charitable, and educational institutions. You may be wondering why is it necessary that any institution is involved? Well, institutions bring along liquidity with them. This makes the market more efficient. Plus, this gives a sense of confidence to the investor.

M - Market direction.

The previous six factors won't matter if you are in the wrong market. Therefore, it is necessary to know which market we are in. Is it a bull market, a bear market, or just a consolidation phase? Accordingly, you have to plan out your investment strategy for each of the stocks you hold/plan to hold....

Investing is all about strategy. Use strategy what you feel good for you.

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