STOCK SCREENING

Since the 1980s, I have been using computer assisted screening as a way to narrow down a tremendous amount of information—as many as 10,000 stocks daily—to produce a manageable list of candidates that meet some minimum criteria to be studied further. Today, there are many screening tools available for the investor. Here are a few suggestions on screening.

When you are conducting quantitative analysis (stock screening), keeping it simple will serve you better than using a complicated model. You must be careful not to put too much into each screen. Otherwise, you may inadvertently eliminate good candidates that meet all your criteria except for one. For example, let's say you want to select stocks that exhibit a certain level of earnings, market cap, estimate revisions, and so forth, until you have 12 lines of criteria. If a stock meets 11 but misses by a hair on the twelfth, you will never see that stock. Remember, if you have 100 items in your criteria, a stock needs to miss only 1 to be filtered out even though the other 99 are met.

A better approach is to run separate screens that are based on smaller lists of compatible criteria, for example, one screen for relative price strength and trend and a separate fundamental screen that is based on earnings and sales. Often, as you run isolated screens, you will see some of the same names recurring, whereas a few names will appear on only one list. Remember, computers are great for weeding out noise and pointing your research in the right direction; however, if you want consistent superperformance, you will need to roll up your sleeves and do some old-fashioned manual analysis. That's the interesting part of trading, and that's what makes it fun and rewarding.

Make a Commitment to an Approach

You don't need a PhD in math or physics to be successful in the stock market, just the right knowledge, a good work ethic, and discipline. The SEPA methodology was developed after decades of searching, testing, and going back to the drawing board countless times to uncover what actually works. It has been time-tested and proved effective in the real world with real results. You, too, will go through your own trial-and-error period: window-shopping and trying various concepts and approaches to the stock market, whether value, growth, fundamental, technical, or some combination. In the end, to succeed, you will need to settle on an approach that makes sense to you. Most important, you must commit to perfecting and refining your understanding of that methodology and its execution. A stock trading strategy is like a marriage; if you're not faithful, you probably won't have a good outcome. It takes time and dedication, but your objective should be to become a specialist in your approach to the market.

Although strategy is important, it's not as critical as knowledge and the discipline to apply and adhere to your rules. A trader who really knows the strengths and weaknesses of his or her strategy can do significantly better than someone who knows only a little about a superior strategy. Of course, the ideal situation would be to know a lot about a great strategy. That should be your ultimate goal.