Remember, a stock can just as easily start falling the day after you buy it.

In the past couple of years, we've seen many stocks that rose on mere 'irrational exuberance' (to quote Alan Greenspan). And we've seen them collapse just as quickly. Before you buy a stock, you need to know that the arrow on the price chart has the greatest likelihood of going nowhere but up.

Know Instantly Whether A Stock Is A Potential Winner

And the way you do that is by checking an important number for each stock before you buy. That number is the stock's...earnings momentum. Earnings momentum measures how fast a company's earnings have grown over the past 3 to 5 years, how fast they're growing right now, and how fast they're growing compared to other companies in their industry.

Remember, institutional investors look for companies with above average earnings growth. You want to buy the stocks that the institutional investors have just started buying, and will keep buying long enough to drive the price significantly higher.

A high earnings momentum tells you that the stock has a long way to go before it reaches the top of its price curve. It assures you that it's not too late to buy.

Most importantly, earnings momentum helps you separate companies with the best chance of long-term success from those that are all flash and hype.

Remember: the job of any business is to make money. Good companies increase their earnings faster than their competitors. If a company isn't doing that, it's not a good investment.

Two years ago, when Internet stocks were all the rage, my friends and colleagues used to ask me why The Oxford Club never bought or recommended companies like K-Tel International, Millionaire.com, theglobe.com, VitaminShoppe.com, Books-a-Million, and Amazon.com-companies whose stocks were rising sharply, but whose earnings were weak or non-existent. But after these companies lost 85-95% of their value, they understood why we steered clear of them.

The Only Safe Way To Follow A Trend

But earnings momentum alone is not enough to identify stocks entering a growth spurt. Remember, you want to buy stocks with value that the institutional investors overlooked. A stock can have strong earnings, but if the price has kept up with the earnings, then no growth spurt will occur.

A growth spurt only happens when the institutional investors realize they've made a mistake. They've overlooked a stock's true value, and now they must scramble to buy shares while they're still cheap. It's a period of strong demand for a stock.

Before you buy a stock, you want some sign that the buying frenzy has started and that demand is high. And the most effective way to judge demand for a stock is its relative price strength.

Relative price strength measures how quickly a stock is rising compared to other stocks. The higher the relative strength, the more demand for that stock is accelerating, and the higher and faster the price is likely to climb. Needless to say, you only want to buy stocks with the highest relative strength.

The combination of high earnings momentum and high relative strength tells you a stock is most likely entering a period of strong growth. Your chance to make a killing.

Learning to use earnings momentum and relative strength in a disciplined way gives you a huge advantage over most investors. But there are still additional tests a stock should pass before you buy...

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