# THE HUNT FOR 10 BAGGERS


## How To Easily Find Stocks That Are About To Surge 10X Or More

by Alex Dvorkin

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**That Are About To Surge 10X Or More**

**By Alex Dvorkin**
http://www.InvestWithAlex.com

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# INTRODUCTION

It was Tuesday, January 11th, 1898. I was running up and down the trading floor, like a crazed animal. Bumping into people, jumping into trading pits, grabbing the latest stock quotes and rushing back to a giant blackboard right next to the main entree way. I would then jump on and scale what must have been a 60 foot ladder in order to update the bid/ask/price stats for at least three stocks at a time. Jump down, rinse and repeat. I was exhausted. I distinctly remember that my body was beaten up from bumping into thousands of people as I was running through the trading floor. No wonder I woke up tired.

My boss, fat Joe, was yelling at me throughout the entire ordeal. He would repeatedly shout "Faster you lazy SOB, I don't have all day for this" as I would eagerly jump into the next trading pit. Yet, after a few round trips I have noticed something strange. Every time I would update the stock price it would go up exactly 10 times. The crowd on the trading floor below was starting to go wild. I was becoming the most popular runner. Just within a few trading hours General Electric went from $8.50 to $85 a share, Colgate-Palmolive Co. went from $17 to $170 and Union Pacific Corporation went from $11.35 to $113.50. Someone was making a lot of money.

As the "melt-up" panic spread throughout the trading floor most of the stock enthusiast below turned into blood thirsty animals. Pushing, screaming, trampling each other, yelling BUY, BUY, BUY.....whatever it took to get a piece of the action. A few minutes later the mob proceeded to push my ladder over, forcing me to fall into a swarm of money hungry sharks. Waking up in a cold sweat of excitement I had a great idea and I knew what I had to do next.

I had to find an answer if it was possible to identify "Tenbaggers" through a combination of fundamental, technical and timing analysis. To determine what, if any, traits they have had in common before starting their historic runs. Most importantly, to identify metrics that would allow us to recognize the same opportunities in today's market. Giving us the ability to take position in and profit from such high probability Tenbaggers of the next decade.

That is what this book is all about.

Tenbagger, a stock that goes up at least 10X its original purchase price, is the term first coined by a legendary investor Peter Lynch. Lynch was considered to be one of the best money managers in the nations in the 1970-1990's through his management of Fidelity Magellan Fund. Mr. Lynch had a particular knock for identifying companies in early stages of their stock run ups. Companies like Body Shop, Lawrence Savings Bank, Pier 1, Supercuts, etc.... Buying them in early growth (when no one else was paying attention) and holding them for many years as they went on to appreciate 5X, 10X, 50X and even more.

As you can very well understand, picking just one of such home runs will give you the ability to retire before Donald Trump does and picking 10 in a row will give you enough resources to fund NASA for at least a few years. Hence the significant interest in the subject matter.

Stocks like Franklin Resources. If you would have invested $10,000 in Franklin Resources (BEN) in February of 1989, today you would have over $580,000. A "58 Bagger" or a 5,700% return on your investment. If financial services companies do not spark your fancy perhaps equipment maker Danaher Corp (DHR) will. If you would have invested just $10,000 in April of 1990, today you would have over $800,000. An "80 Bagger". I bet you can smell the sweet scent of easy money right about now, yet very few investors are able to identify let alone hold on to such amazing investment opportunities.

We are here to change that. During the course of this book we will look at 5 such individual stocks, the companies that have appreciated at least 10X over the last 5-25 years. We will go back in time to the point before their original stock price run ups ensued. We will analyze the underlying companies in great detail to ascertain if the companies in question had certain characteristics that can be attributed to potential future Tenbaggers. In particular, we will look at such companies from three different angels.

- **Fundamental Analysis:** It is important to understand any Tenbagger's fundamental starting point. Prior to its run up initiation. We will look at various valuation metrics, analyze financial statements, look at management, competition, products and product pipelines. Anything and everything in order to understand where the company was and why such a massive growth in its stock price was about to occur.

- **Technical Analysis:** We will look at the underlying charts in order to determine if the Tenbagger in question gave us any technical hints of what was about to come. If there was any clue at all that the underlying stock price was about to stage a massive multiyear rally. Plus, we will look at various entry points to determine if we could have taken a position under technical pretences alone.

- **Timing/Mathematical Analysis:** Most importantly, I will introduce my proprietary timing/mathematical analysis into the mix to see if such massive stock rallies could have been predicted and anticipated. Plus, we will look at the durations of these rallies in order to identify proper exit points and what that would have meant for the future of the underlying companies.

What will we find and will we be able to identify future Tenbaggers based on the analysis above?

That is the purpose of this book. To look at such companies in greater detail and to identify traits that were common to all of them. By combining fundamental, technical and timing/mathematical analysis we will be able to determine what factors were important and what might have triggered these Tenbaggers to initiate their massive multiyear stock market rallies. Most importantly, we will attempt to build an early trigger system that would allow us to take appropriate positions in future Tenbaggers. All while holding their stocks for the duration of their rallies.

We will study the following companies.

| **Company Name** | **Stock Symbol** | **% Appreciation** | **Number Of Bags** | **Original Investment ($10,000)** | **Duration** |
|---|---|---|---|---|---|
| Chipotle Mexican Grill | CMG | 1,465% | 14.6 | $146,500 | 8.5 Years (*Since 2006) |
| Apple Inc | AAPL | 7,500% | 75 | $750,000 | 11 Years (*Since 2003) |

| | | | | | |
|---|---|---|---|---|---|
| Keurig Green Mountain | GMCR | 49,616% | 496 | $4.96 Million | 15 Years (*Since 1999) |
| Best Buy Inc | BBY | 4,000% | 40 | $400,000 | 9 Years (1997-2006) |
| Bally Technologies | BYI | 7,800% | 78 | $780,000 | 14 Years (*Since 2000) |

*Data as of June 2014.

In conclusion, this book will attempt to become a definitive guide on how to identify, analyze and take appropriate positions in future Tenbaggers.  Throughout a wide range of diversified industries. By studying the past and identifying clearly defined metrics, we should be able to parlay such knowledge well into the future. It is my sincere hope that this book helps you identify future Tenbaggers, take position at the appropriate time and hold it through thick and thin. Well, at least until it is time to take profit at 10X, 20X or 50X your original purchase price. If done properly and successfully, the grandkids of your grandkids will never have to work.

**Please Note: All dividends paid out by the above companies will be excluded from this analysis as we are strictly interested in capital gains.

# Would You Like A Million With That Coffee?


| | | |
|---|---|---|
| **Company Name:** Keurig Green Mountain Inc | **Stock Symbol:** GMCR | **Industry:** Consumer Goods |
| **Percent Appreciation:** 49,616% | **Number of Bags:** 496 | **Holding Period:** 15 Years |
| **Entry Date & Price:** Aug, 1999 @$0.25 share | **Exit Date & Price:** Current | **Original Investment($10,000):** $4.96 Million |

**Company Description:** Keurig Green Mountain, Inc. is engaged in the specialty coffee and coffeemaker businesses in the United States and Canada. The company operates through two segments, Domestic and Canada. The company sources, produces, and sells approximately 290 varieties of coffee, hot cocoa, teas, and other beverages in K-Cup and Vue portion packs; and coffee in traditional packaging, including whole bean and ground coffee selections in bags, and ground coffee in fractional packs. The company was formerly known as Green Mountain Coffee Roasters, Inc. and changed its name to Keurig Green Mountain, Inc. in March 2014. Keurig Green Mountain, Inc. was founded in 1981 and is based in Waterbury, Vermont

**Quick Trading Overview & Objective:** The company went public in September of 1993 at around $0.50 a share (split adjusted). Shortly after its IPO, the company's stock declined by over 50%. It then proceeded to trade in a relatively tight trading range of $0.14-0.40 per share between 1994 and the second half of 1999. It was at that juncture that the stock broke out of its trading range to initiate a massive multi-year rally of 49,616% (as of 6/27/2014 @ $124.29)

We will now go back in time and take an in depth look at the company in order to determine if we could have taken a long position in early 1999. More importantly, we will look at Keurig fundamental/trading patterns over the last 15 years to ascertain if we would have been able to maintain our position over such an extended period of time in order to walk away with such massive gains.

**FUNDAMENTAL ANALYSIS:**

Investors in GMCR had a fairly long time window to initiate their original long positions. To be exact, 5.5 years or between the years of 1994-2000. Yet, the best entry point was in the second half of 1999. It was the last chance and the best time for investors to load up on the stock before its massive rally would ensue. People taking a position thereafter would see their returns in this stock diminish rather quickly. Luckily for you, you could have bought the stock as late as 2009 and still have a Tenbagger on your hands.

To establish a clear picture of what had happened over the last 15 years we must first study the fundamental growth of the company between 1999 and today.

| **Key Statistics** | **1999**<br>(September 10, 1999) | **2014**<br>(June 30th,2014) |
|---|---|---|
| Price Per Share | **$0.28** | $124.45 |
| Market Cap | $45.6 Million | $20.25 Billion |
| Earnings Per Share | $0.014 | $3.34 |
| P/E Ratio | 20 | 35 |
| Price/Sales Ratio | 0.70 | 4.53 |
| Price/Book Ratio | 3.89 | 6.19 |
| Revenue | $64.9 Million | $ 4.50 Billion |
| Net Income | $2.3 Million | $543.5 Million |
| Annual Earnings Growth | 16% (revenue) | 39% (fiscal 2013) |
| Total Cash | $415,000 | $1.11 Billion |
| Total Debt | $4.9 Million | $274 Million |
| Book Value Per Share | $0.07 | $20.22 |
| Shares Outstanding | 162.74 Million (split adjusted) | 162.74 Million |
| Total Assets | $23.8 Million | $3.76 Billion |
| Shareholder Equity | $11.7 Million | $2.64 Billion |

As soon as you look at the data above, one thing becomes evident. Keurig Green Mountain fundamental growth over the last 15 years has been nearly as impressive as its stock price growth. During this period of time revenue grew by 6,823%, earnings per share increased by 23,757%, book value grew by 28,785% and shareholders equity jumped by 22,464%. More than justifying the rise in the stock price.

**The question is, what had happened on the fundamental level to push the company to grow at such a fast pace?**

Well, before the $4.5 Billion in sales, before all of the partnerships, before Keurig brewing system and single portion cups of coffee, Green Mountain Coffee Rosters began operations in 1981 as a small Cafe in Waitsfield, Vermont. By simply roasting and serving coffee. As demand grew, the company expanded its roasting and wholesale operation to attract larger customers.

Over the next decade the company grew large enough to do an IPO by 1993. By 1999, Green Mountain was roasting over 25 high-quality Arabica coffees in order to produce over 60 varieties of coffee which it was selling through a network of wholesale and direct mail partners. All 6,000 of them. During the fiscal 1999, 1998 and 1997, approximately 95%, 94% and 93%, respectively, of Green Mountain's sales from continuing operations were derived from its wholesale operation in the northeastern United States. All in all, by 1999, Green Mountain was just another local roaster and a wholesale distributor.

Yet, something incredible was brewing.

In 1996, Green Mountain invested in Keurig Inc, buying a 35% interest in the company. Keurig, the maker of a single cup brewing system started selling its first brewer, the B2000 in 1998. While Keurig initially concentrated on the office use of its products, it later added a number of popular consumer models. By 2003, there were more than 40,000 commercial Keurig brewers in American offices. In 2003 Green Mountain increased its Keurig ownership to 43% and in 2006 the company decided for acquire the rest of Keurig for $160 Million.

Going back to 1998, Green Mountain began supplying Keurig with 12 coffee varieties in K-Cup portion packs designed for the Keurig Premium Coffee System. And while the companies did not have an exclusive deal, it could have been very well ascertained that Keurig would use Green Mountain as its primary coffee or K-Cup supplier (because of the 35% Green Mountains stake in Keurig at the time).

Even thought the company was sitting on a major growth engine in 1998-1999, the company's annual report at the time did not indicate that the management nor the stock market has yet realized the opportunity that was right in front of them. In fact, at the time the management continued to concentrate most of their attention on growing their wholesale distribution business and increasing their market share.

> **1999 Annual Report:** Green Mountain Coffee is focused on building the brand and profitably growing its business. At present, management believes that it can continue to grow sales internally over the next few years at a rate similar to its historical five-year average growth rate (in the range of 25 to 30 percent).

What no one at the time realized is that they were sitting on top of a goldmine that would transform their business. Through the combination of Keurig's Premium Coffee System and Green Mountain's coffee and K-Cups (single cup) technology, the company was about to create something of a "printer & ink" combination in the hot beverage/coffee industry.

So much so that the company went from deriving 95% of their revenue from their low margin wholesale coffee business in 1999 ($65 Million), to deriving 95% of their current revenue base from their high margin sales of Keurig Coffee Systems and K-Cups ($4.3 Billion). In summary, staring in 1998-1999 Green Mountain started its transformation from a sleepy coffee distributor/roaster into a high-technology coffee company. Hence the growth and the 49,616% return on investment since 1999.

For our purposes, we must ascertain if it would have been possible to predict this meteoric rise and take position in the second half of 1999 from the fundamental perspective alone.

**The short answer is NO.**

There were very few clues that would allow us to take a position at the time. First, there was nothing special about the company. It was just another regional coffee distributor/roaster. Second, the company was stuck in a tight trading range for over five years. Further, the company's valuation at the time (with the P/E of 20) would not warrant a value oriented investment. Finally, there was nothing to suggest that the company was about to stage a massive revenue growth spurt.

Even Green Mountain's own management didn't not anticipate that their Keurig line would take off as much as it did. The best any fundamental analyst could have done at that stage is thrown this company into a "Big Potential" bin. That is after analyzing Keurig & K-Cups in great detail and realizing that the company MIGHT have a great product line on their hands. Yet, no one at the time could have predicted that Keurig and Green Mountain would be able to achieve the growth that they have had. This brings us to the technical side of the equation.

**TECHNICAL ANALYSIS:**


Since the fundamental analysis has failed to give us the ability to take a long position in Green Mountain's stock in the second half of 1999, we must now concentrate on the technical side of the equation to see if would have had better luck there.

As you can see from the 1994-2000 GMCR chart above, after going public the company's stock immediately declined over 50%. Thereafter, the stock price remained in a tight trading range of $0.14-0.40 (split adjusted) between 1994 and the second half of 1999. Bottoming at $0.14 in October of 1998.

With the stock price trending higher in 1999 and 2000 we would have had two opportunities to take a long position in GMCR at the time. One in September of 1999 at $0.31 and one in January of 2000 at $0.35. With the $0.35 entry point in January of 2000 being technically more sound.

The only remaining question at the time would be......Why would we take position?

There was no real reason to do so unless you were closely following the company and all of its fundamental developments. Including the growth in their Keurig/K-Cup line. And while the stock price was already trending higher since October of 1998, appreciating over 100% by the end of 1999, it was still unclear if it was just another range bound rally or something more.

**TIMING & MATHEMATICAL ANALYSIS:**

After going public in October of 1993 and staying in a relatively tight trading range over the next 5 years, Green Mountain's stock price did not give us enough time nor volatility to determine its cyclical breakup. Typically, over 20 years of trading data is necessary in order to be able to determine underlying stocks mathematical, timing or cyclical structure.

While we would not be able to get that information from GMCR chart by the second half of 1999, one thing jumps out immediately. Green Mountain's stock price bottomed at $0.14 in October of 1998. Exactly 5 Years after going public. If you are familiar with my other writings you are very well aware that I regard the 5 year cycle as one of the most important cycles in the stock market.

The 5 year cycle tends to represent completed bull or bear phases within the composition of the overall stock market or individual stocks. For example, the 1982-1987, 1994-2000 and 2002-2007 bull cycles all lasted exactly 5 years. An analyst familiar with this cycle would realize that a 5 year BEAR cycle that started for GMCR's stock price in October of 1993 had likely terminated in October of 1998. At least the probability was fairly high. Giving more credence to taking a long position in late 1999.

**GETTING IN AND OUT OF THE STOCK:**

As you very well know, taking a trading/investment position in a Tenbagger at an appropriate time is only half the battle. Staying put, increasing your position and not being forced out to sell at the wrong time is the other side of the coin. After all, it wouldn't be a good idea to take a 100% profit, only to see your stock go up another 20,000% over the next decade. As human beings we are wired to buy and sell at exactly the wrong time. Hence the inability to outperform the market. When it comes to Tenbaggers we must have a clearly defined set of trading rules that will help us mitigate the risk of being wrong (Please see the Tenbagger Trading Rules & Maximizing Returns chapter).

In the case of Green Mountain, if you were fortunate enough to take a long position in late 1999 or early 2000 it would not have been an easy ride up. The stock had suffered a 60% drop between 2001 and 2002, 50% drop in 2008 and a gut wrenching 84% decline between 2011 and 2012.

Would most investors be able to go through such massive sell offs without liquidating their positions?

Who are we kidding, most mortals would not be able to sustain such massive drops without first getting out. Most likely at exactly the wrong time. Well, that is unless you were in a comma during the time or if Green Mountain represented only a small portion of your overall well diversified portfolio. For the rest of us, neither one is likely to be the case. That is why a proper application of set trading rules becomes so important. So much so that in many cases it can easily double or triple the overall return on the underlying stock. Easily turning Green Mountain's 496 bagger into a 1,000 bagger over the same period of time. Once again, please check our Tenbagger Trading Rules & Maximizing Returns chapter for more information.

**CONCLUSION:**

Keurig Green Mountain Inc gave us very little evidence in 1998-2000 period that it was about to stage a massive 49,616% rally over the next 14 years. In fact, even the company's own management was not convinced that Keurig Coffee Systems and Green Mountain's K-Cups would revolutionize the industry.

There was only one way to take a legitimate position at that time. First, you would have had to have an in depth understanding of the company and the potential associated with Keurig/K-Cups. That could have only been gauged through fundamental analysis. Meaning, you would have had to study the company in great detail and then concentrate on the new technology associated with Keurig to fully comprehend the potential.

It was only after understanding the upside potential associated with Keurig that a technical side of the equation should have been studied. Otherwise, it would not have made any sense to take a long (or any) position in GMCR, regardless of what the stock price was doing. And it was only after the stock price began to break out or set higher highs that you should have noted that the market was starting to confirm the fundamental potential of the company. Forcing you to consider a long position at the time.

**Final Prescription: Fundamental Analysis + Technical Analysis + Patience = A Massive ROI.**

# How 'Bout Them Apples


| **Company Name:** Apple, Inc | **Stock Symbol:** AAPL | **Industry:** Technology/PC |
|---|---|---|
| **Percent Appreciation:** 7,500% | **Number of Bags:** 75 | **Holding Period:** 11 Years |
| **Entry Date & Price:** May, 2003 @$1.25 share | **Exit Date & Price:** Current ($95/share) | **Original Investment($10,000):** $750,000 |

**Company Description:** Apple Inc. and its wholly-owned subsidiaries design, manufacture, and market mobile communication and media devices, personal computers, and portable digital music players worldwide. It also sells software, services, peripherals, networking solutions, and third-party digital content and applications related to its products. The company offers iPhone, a line of smartphones that comprise a phone, music player, and Internet device; iPad, a line of multi-purpose tablets based on Apple's iOS Multi-Touch operating system; Mac, a line of desktop and portable personal computers; and iPod, a line of portable digital music and media players, such as iPod touch, iPod nano, iPod shuffle, and iPod classic.

**Quick Trading Overview & Objective:** Apple's ups and downs over the last three decades are very well known and it would be impossible to account for all of its trading/investing history in this short overview. For our purposes, we will concentrate on Apple's latest stock rally that initiated in April of 2003. At that time Apple's stock set a multi years low of $0.93 a share. A low unseen since 1982. It was at that juncture that the stock price proceeded to bottom and then kick off a massive multi-year rally of 7,500% (as of 7/8/2014 @$95).

We will now go back in time and take an in depth look at the company in order to determine if we could have taken a long position at that time. More importantly, we will look at Apple's fundamental/trading patterns over the last 11-12 years to ascertain if we would have been able to maintain our position over the entire period.

**FUNDAMENTAL ANALYSIS:**

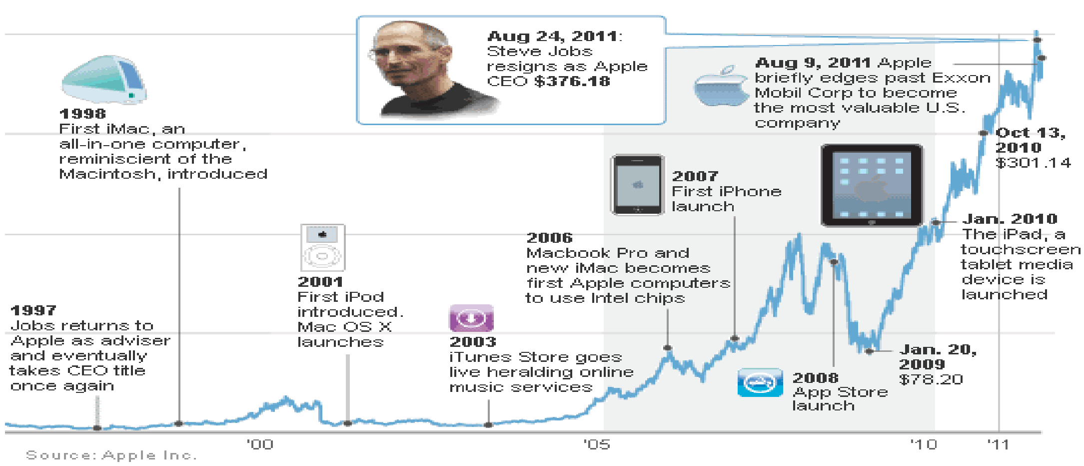
Apple's story cannot be told without first concentrating on its founder and the driving force behind the company, Steve Jobs. As you probably know, Steve Jobs was forced out of Apple in 1985, only to return as the company's CEO in 1997. It was at that point that "Chapter 2" in Apple's history began. Steve was able to bring the company back from its near death experience by introducing a number of popular PC's, cutting costs and securing a large investment from Microsoft. Immediate after his return Apple's stock price started to surge, appreciating close to 1,000% by March of 2000 (A Tenbagger in 2.5 years). Then, the Nasdaq crashed and so did Apple's stock price. Going from $10 a share to $1 a share in a matter of 9 months.

To establish a clear picture of what had happened over the last 12 years we must first study the fundamental growth of the company between 2002 and today.

| **Key Statistics** | **2002** (December 31, 2002) | **2014** (July 8th,2014) |
|---|---|---|
| Price Per Share | **$2.00** | $95.00 |
| Market Cap | $15.5 Billion | $575 Billion |
| Earnings Per Share | $0.026 | $5.96 |
| P/E Ratio | 77 | 16 |
| Price/Sales Ratio | 2.72 | 3.27 |
| Price/Book Ratio | 2.94 | 4.8 |
| Revenue | $5.7 Billion | $ 176 Billion |
| Net Income | $65 Million | $38 Billion |
| Annual Earnings Growth | 7%(revenue) | 9.2% (fiscal 2013) |
| Total Cash | $415,000 | $41 Billion |
| Total Debt | $4.3 Billion | $17 Billion |
| Book Value Per Share | $0.68 | $20.5 |
| Shares Outstanding | 6 Billion (split adjusted) | 6 Billion |
| Total Assets | $6.2 Billion | $207 Billion |
| Shareholder Equity | $4.1 Billion | $123 Billion |

As we analyze the data above, one thing jumps out at us immediately. Apple's fundamental growth has been as impressive over the last 11-12 years as its stock price growth. During this period of time revenue grew by 3,733%, earnings per share increased by 22,846%, book value grew by 2,914% and shareholders equity jumped by 2,900%. More than justifying the rise in the stock price.

We must now go back to the 2001-2002 period in order to determine why the company was selling at such a discounted level and what fundamental changes would occur to propel the stock price higher.



While it might be hard to believe, back in 2002 about 80% of Apple's revenue was generated through the sales of their Macintosh, PowerBook, iMac and iBook products. And while they were already selling iPod's (introduced in 2001), this revolutionary product hasn't even began to gain traction yet. In simple terms, Apple was just another PC company in the midst of a massive Nasdaq/technology bubble bust. Yet, the company was already giving us a hint of what was to come.

> ***From their 2002 Annual Report:*** *The company believes that personal computing has entered a new era in which the personal computer functions for both professionals and consumers as the digital hub for advanced new digital devices such as digital music players, personal digital assistants, cellular phones, digital still and movie cameras, CD and DVD players, and other electronic devices.*

The company was selling at $1 a share in 2002 for a few reasons. After growing at a brisk pace between 1997 and 2000 the company's overall sales collapsed 33% percent in the fiscal 2001. Delivering a net loss of $25 Million in the process. This was the company's first loss since 1997. Yet, there was nothing malicious behind the revenue drop. The US economy and the tech sector in particular were going through a major readjustment at the time. As the worldwide economy came to screeching halt and the Nasdaq collapsed, so did sales at Apple.

To summarize, by 2002 Apple was just another computer company, although with a cult like following, that was trying to survive during an economic downturn. With the Nasdaq down 80%, cut throat competition and no "must have" products, the future looked anything but certain. Hence the $1.00 a share stock price.

Yet, as was suggested above, things were about to improve. In conjunction with iPods starting to become incredibly popular, Apple introduced iTunes in 2003. As a result, in fiscal 2003 alone, iPod sales grew 141% from $143 Million to $345 Million. While this number was still less than 6% of the overall revenue, it gave investors a preview of what was to come. By the end of fiscal 2006 the company was generating $7.6 Billion in iPod sales and $1.9 Billion in iTunes sales. Representing staggering growth and accounting for 50% of Apple's $19.3 Billion revenue base at the time.

While impressive, Apple was just getting started. Steve Jobs followed iPod's incredible success by launching iPhone in 2007, Apps Store in 2008 and iPad in 2010. The rest, as they say, is history. By the end of fiscal 2013 Apple was generating $171 Billion in sales, with the following products generating the bulk of the revenue.

Net Sales by Product 2013:

- iPhone $ 91.2 Billion
- iPad $32 Billion
- Mac $21.5 Billion
- iPod $4.4 Billion
- iTunes, software and services $ 16 Billion
- Accessories $5 Billion

The best way to look at Apple's success over the last 12 years is as follows. While Apple's existing Mac line grew on its own accord, Steve Jobs was able to create $143 Billion in additional revenue out of thin air by creating/introducing revolutionary new products such as iPod, iTunes, iPhone and iPad.

For our purposes, we must now ascertain if it would have been possible to predict this meteoric rise and take position in the stock around 2002-2003 from the fundamental perspective alone.

**The short answer is..... NO.**

While an analyst working with Apple back in 2002 could have predicted the popularity of iPods and the success of iTunes (in theory), it would have been impossible to anticipate future blockbusters. No technology futurist at the time could have predicted the iPhone, the Apps Store or the iPad. It is not even clear if such products existed in Steve Jobs's mind as far back as 2002-2003. And even if someone was able to predict the appearance of such products, it would have been impossible to predict if the market would have accepted them or not. The technology field is littered with dead products that were way ahead of their time.

The best any fundamental investor could do in the 2002-2003 time frame is as follows...

Analyze Apple's rapidly growing iPod business and determine that iPod's sales cycle and its popularity is just starting. That it would be a massive hit for Apple over the next few years. It would be an educated guess, but it would be better than nothing.

Assume that Steve Jobs and Apple will continue to introduce revolutionary products (similar to iPod) over the next few years. That could have been ascertained from studying Steve Jobs and understanding his drive for innovation. Still, it would have been a hit or a miss proposition. Just because Steve Jobs introduces a new product doesn't mean it will be a huge success. He did have a number of large failures throughout his career.

Which bring us to the decision making time based on the fundamental analysis alone. Apple was not a clear cut case. The economy was in the dumps, the technology sector was devastated by the burst of the tech bubble and while Apple did have a hit product, it was not necessarily evident. Plus, with the iPhone introduction being 5 years away, the best any investor could do at the time was to add Apple's stock to his or her well diversified portfolio. In hopes that the tech sector will recover and that Apple's iPod business will continue to drive the company forward. Yet, no one could have predicted that Apple would go up 3,700% over the next decade based on the fundamental factors alone.

**TECHNICAL ANALYSIS:**

Since the fundamental analysis did not necessarily yield a strong buy signal for Apple in our 2002-2003 time frame, we must now concentrate on the technical side of the equation to see if we would have had better luck there.

As you can see from the chart above, Apple's stock price collapsed in conjunction with the Nasdaq in the fiscal 2000. Going from $10 a share to $0.96 a share in a matter of nine months. Thereafter, the stock price remained, more or less, within a tight $1.00 to $2.00 trading range for two and a half years. That is until April of 2003.

What happened in April? Apple's stock price bottomed at around $0.96 a share and then started its massive multiyear rally. What else happened around the same time? The Dow set a clearly defined secondary bottom in its bear market of 2000-2003 and started its 5-year bull market of 2002-2007. Essentially, Apple's stock price bottomed at exactly the same time as the stock market. This transfers the burden of the rest of our technical analysis to our timing and mathematical work.

**TIMING & MATHEMATICAL ANALYSIS:**

If we study Apple's stock movements since 1997 or after Steve Jobs took the reins back, it appears as if Apple's stock price has synchronized with the overall movements of the stock market. Outside of a few notable exceptions, Apple's stock price tends to ebb and flow with the stock market as a whole. Given Apple's $580 Billion market cap, that makes perfect sense.

Yet, this yields an important clue. If Apple's stock moves or oscillates with the market, it is best to take position at market bottoms, get out (and even go short) at market tops and then re-establish position at subsequent market bottoms. And while most people would assume that it would be impossible to time the market to such an extent, I have proven that not to be the case in my previous book Timed Value. In that book I spend a considerable amount of time describing two important cycles that consistently show up in the stock market. The 17-18 year cycle that represents repeating secular bull/bear market patterns and the 5 year cycle that tends to represent one completed bull/bear cycle within the stock market.

For instance, the latest bull market started in 1982 and completed in 2000. This move was represented by a 18 year secular bull cycle. As of this writing, the market is in the process of completing its 17 year secular bear market cycle. Further, there were a number of clearly defined 5 year cycles during this time. Most notably, 1982-1987, 1994-2000, 2002-2007 and 2009-2014.

An analyst or an investor familiar with these cycles would understand that it is best to hold Apple's stock during the bull phases, only to get out and even go short when a bear phase initiates. For example, an investor in Apple would get out at the top in 2000, go short to ride the stock from $10 a share to $1 a share, only to re-establish a long position at the bottom in 2003. In fact, April to June of 2003 period of time presented us with a perfect entry point into Apple's stock.

The stock was trading at around $0.96-$1.35 (split adjusted) at the time. The Dow set a clearly defined bottom in March of 2003 to continue with its 5 year bull market cycle. An analyst working with Apple would know that Apple's stock price is likely to follow the overall market higher. Forcing any said analyst to watch for signs of a breakout. Such a breakout occurred in April-May of 2003 when Apple's stock price broke out of its 1 year trading range and surged higher. Giving us a technical confirmation that the bottom is likely in and that Apple's stock is ready to follow the overall market higher.

**The result?**

Apple's stock price appreciated 2,200% (22 bagger) between 2003 bottom and 2007 top. That was followed by a 60% collapse in its share price during the 2007-2009 financial crisis. Followed by another 700% gain in the subsequent 2009-2014 bull market.

**GETTING IN AND OUT OF THE STOCK**

As you very well know, taking a trading/investment position in a Tenbagger at the appropriate time is only half the battle. Staying put, increasing your position and not being forced out to sell at the wrong time is the other side of the coin. After all, it wouldn't be a good idea to take a 100% profit, only to see your stock go up another 20,000% over the next decade. As human beings we are wired to buy and sell at exactly the wrong time. Hence the inability to outperform the market. When it comes to Tenbaggers we must have a clearly defined set of trading rules that will help us mitigate the risk of being wrong (Please see the Tenbagger Trading Rules & Maximizing Returns chapter).

In the case of Apple, if you were fortunate enough to take a long position in 2003 it would not have been an easy ride up. As was suggested earlier, the stock went through a 60% correction during the financial crisis of 2007-2009 and a 45% drop in 2012-2013.

Would most investors be able to hold on to their Apple stock while going through such massive sell offs?

It is highly unlikely. Most of us would not be able to sustain such massive drops without first getting out. Most likely at exactly the wrong time. Well, that is unless you were in a comma during the time or if Apple Inc represented only a small portion of your overall well diversified portfolio. For the rest of us, neither one is likely to be the case. That is why a proper application of set trading rules becomes so important. So much so, that in many cases it can easily double or triple the overall return on the underlying stock. Easily turning Apple's 75 bagger into a 150 bagger over the same period of time. Once again, please check our Tenbagger Trading Rules & Maximizing Returns chapter for more information.

**CONCLUSION:**

Apple, Inc gave us plenty of signs that its stock price was about to stage a substantial rally from its 2002-2003 bottom. While we would not be aware of the extent of the rally at the time, it would have been wise to ascertain that the rise would be substantial. Here is why.

First, as our fundamental analysis above showed, an analyst working with Apple would be aware of iPod's growing popularity and a real possibility of iPod becoming a runaway hit for the company. And while iPod's parabolic growth trajectory was still unknown, it could have been anticipated as one of the possible growth rates. Further, while the rest of the Apple's revolutionary products where at least 5-years away at the time, investors could have assumed that Steve Jobs's insatiable drive for innovation would assure that Apple will continue to introduce new and revolutionary products. Well into the future. While not a clear cut case for a guaranteed success, it provided a positive fundamental framework for investing in Apple at the time.

Our investment case for Apple gets even stronger at the 2003 bottom and after the realization that Apple's stock price is selling at a multi-decade low. Primarily due to the Nasdaq's collapse and a slump in the tech sector. An analyst familiar with the cyclical composition of the overall stock market would have known that a bear market of 2000-2002 was over and that the Nasdaq was about to stage a multi-year rally. Since Apple's stock price has synchronized with the overall market, it would have been safe to assume that Apple's stock price would push higher as soon as the market does. Suggesting that investors should seek out a good entry point. A point that was clearly defined on a chart in April and May of 2003.

Separately, neither fundamental, technical nor timing analysis would allow us to take a position in Apple's stock. Yet, when we combine all of these factors together we get a high probability setup as it becomes evident that Apple's stock price is likely to outperform the market by a large margin. From both the fundamental and technical side. While not a clear cut bet, this case presents us with a clearly defined low risk and a high ROI opportunity.

**Final Prescription: Fundamental Analysis + Technical Analysis + Timing Analysis = A Massive ROI.**

# Best Buy That Stock


| **Company Name:** Best Buy, Inc | **Stock Symbol:** BBY | **Industry:** Electronics Retail |
|---|---|---|
| **Percent Appreciation:** 4,000% | **Number of Bags:** 40 | **Holding Period:** 9 Years |
| **Entry Date & Price:** March,1997 @$1.25 share | **Exit Date & Price:** December, 2006 @ $51 share | **Original Investment($10,000):** $400,000 |

**Company Description:** Best Buy Co., Inc. operates as a multi-national, multi-channel retailer of technology products in the United States, Canada, China, and Mexico. Its stores offer consumer electronics consisting primarily of television and home theaters; digital cameras and camcorders; DVD and Blu-ray players; portable electronics, such as MP3 devices, headphones and speakers, car stereo, navigation and satellite radio; and all related accessories. The company's stores also provide computing and mobile phone products, including notebook and desktop computers, tablets and e-readers, mobile phones and related subscription service commissions, and related accessories; entertainment products, such as video gaming hardware and software, DVDs, Blu-rays, CDs, digital downloads, and computer software; and appliances, including large and small appliances, and kitchen and bath fixtures, including faucets, sinks, toilets, and bathtubs. It also offers extended warranty service contracts, technical support, product repair, delivery, and installation services, as well as offers snacks and beverages

**Quick Trading Overview & Objective:** While Best Buy's stock price has appreciated over 44,000% (440 bagger) since the company first went public in the mid 1980s, we will be concentrating our attention on a more recent period. We will initiate our coverage at 1997 bottom of around $1 a share (split adjusted) in order to see what had caused the company to appreciate over 4,000% between 1997 and 2006.

We will now go back in time and take an in depth look at the company in order to determine if we could have taken a long position at that time. More importantly, we will look at Best Buy's fundamental and trading patterns over that period of time in order to ascertain if we would have been able to maintain our position over a 9 year period of time while getting out at the top.

**FUNDAMENTAL ANALYSIS:**

As was mentioned above, by 1997 Best Buy had a decade of excellence under its belt. In both, the stock price appreciation and the growth of its retail business. Between 1986 and 1997 the company's stock price had already appreciated by 1,900% (a 19 Bagger). Yet, things were about to get a whole lot better for Best Buy and the company's shareholders.

To establish a clear picture of what had happened between 1997 and 2006 we must first study the fundamental growth of the company at the time.

| **Key Statistics** | **1997**<br>(December 31, 1997) | **2006**<br>(December 31, 2006) |
|---|---|---|
| Price Per Share | **$4.05** | $50.00 |
| Market Cap | $1.4 Billion | $17.4 Billion |
| Earnings Per Share | $0.27 | $4.02 |
| P/E Ratio | 14.8 | 12.42 |
| Price/Sales Ratio | 0.17 | 0.48 |
| Price/Book Ratio | 2.5 | 2.8 |
| Revenue | $8.3 Billion | $ 36 Billion |
| Net Income | $94.5 Million | $1.4 Billion |
| Annual Earnings Growth | 26%(gross profit) | 21% |
| Total Cash | $520 Million | $1.2 Billion |
| Total Debt | $225 Million | $590 Million |
| Book Value Per Share | $1.60 | $17.8 |
| Shares Outstanding | 348 Million (split adjusted) | 348 Million |
| Total Assets | $2 Billion | $13.5 Billion |
| Shareholder Equity | $558 Million | $6.2 Billion |

As we analyze the data above, one thing becomes evident. Best Buy's fundamental growth during the time did NOT match the growth in the company's share price. In fact, while Best Buy's stock price appreciated 4,000%, shareholder equity and book value grew by only 1000%, net income and earnings per share grew by 1,380% and revenue base increased by only 333%. While an admirable performance, the numbers above do not justify the rise in the stock price from the fundamental perspective alone.

We must now go back and study the 1996-2007 period in greater detail in order to determine why the company was selling at such a discounted level and what fundamental changes would occur to propel the stock price higher.

In 1995 the company began enhancing its store format into the so called "Concept III". The concept featured a larger redesigned store format created to produce a more informative and exciting shopping experience for customers. The standard size of the Concept III stores was increased to 45,000 square feet and it was intended to be as good as or better than the selections offered by Best Buy's competitors in each of its principal product categories. In other words, Best Buy was starting to focus more on hands on demonstrations, bigger stores and providing customers with the most desirable shopping experience possible.

Yet, Best Buy's story is best told by the number of stores they operate and the margin expansion the company was able to squeeze out of its existing stores. Leading into its 1997 stock price bottom, the company had increased its store count by 13% with a net addition of 33 new stores. As of December 31st, 1997 the company was operating 284 stores from coast to coast. At that time the rate of expansion was significantly slower than the previous three years when the company opened a total of 140 stores.

Further, at the time the company believed that it needed to slow down its store growth in order to re-focus on improving the company's operating and financial performance. Planning to open just 25 new stores in fiscal 1999, bringing the store count to 309. In other words, prior to 1997, the company over expended its store base by growing too fast and by compressing margins in their existing stores. As a result, the company was going through a rough time. Forced to cut its new store growth and to find a new way to attract and to keep customers.

Hence the lower stock price. Between 1994 and 1997 Best Buy's stock price declined by over 75%, dropping from $4.50 (split adjusted) to $1 a share. The company was going through a transition during this time. As was mentioned above it was forced to slow down its new store growth from about 47 in the years prior to 1997 to just 25 in 1999. Further, it was searching for a new store concept "Concept III" that would work and that would allow the company to expand their net operating profit margins.  All, while being able to compete effectively in a cut throat business of electronics retail. Basically, by 1997 the future was anything but certain for Best Buy.

Yet, by 2006 the company was growing rapidly once again, with 822 stores under its belt. Increasing their store count by 290% between 1997 and 2006. The company was also able to improve its operating margins from 2.2% in 1997 to 5.6% in 2006. Finally, the sales per retail square foot went from $720 in 1997 to $936 in 2006.

As such, Best Buy's fundamental performance during this time can be summarized in the following fashion.

- Best Buy's stock price declined 75% due to the margin compression and a slowdown in the new store growth. The company was going through a transitionary period at the time as it was trying to find a store concept that would work.

- The company was eventually successful in improving their concept and making it work. Leading to a substantial 150% improvement in their net operating margin.

- The company was then able to accelerate its new store growth, once again, increasing it by 290% over a nine year period of time.

- Best Buy was able to cannibalize competition with their better concept and bigger stores, forcing a number of competitors, including Circuit City into bankruptcy (*2008).

When we combine the factors above we begin to understand why Best Buy's stock was selling at a discount in 1997 and why it started to rally once the performance improved and the company began to grow at a rapid rate once again. The question is, would investors be able to forecast such changes all the way back in 1997 from the fundamental perspective alone?

**Absolutely NOT.**

The fundamental developments above took years to play out.  And while improved performance could have been anticipated, there was no clear evidence that it would occur. In addition, a few questions remain. For instance, while company's initial undervaluation and subsequent growth can be explained by the first 1,000% to 2,000% increase in Best Buy's stock price, it cannot be explained by Best Buy's stock price surge of 4,000% during the same period of time. Perhaps technical analysis can offer us a better answer.

**TECHNICAL ANALYSIS:**


Since the fundamental analysis did not yield a strong buy signal for Best Buy in 1997 we must now concentrate on the technical side of the equation.

As the chart above shows, Best Buy's stock price collapsed over 75% between November of 1994 and February of 1997. Dropping from $4.70 a share (split adjusted) to around $1 a share. What's more, this substantial down move had occurred during one of the strongest bull markets in history. A bull run that initiated at the same time that Best Buy's stock price topped out, in November of 1994.

Unfortunately, outside of dropping 78%, Best Buy's stock gave us very few clear technical signs that it would either top out in 1994 or bottom out in 1997. Outside of a clearly defined downtrend between November of 1994 and February of 1997, we have very little to go by. In other words, by early 1997 it was unclear if the company's stock price was going through another bear market bounce or if it was in the early stages of a massive bull run. It was not until October of 1997 that Best Buy's stock price broke above $3 a share, giving us the first indication that the company's stock price has shifted gears and might be starting a sustained bull market run.

In conclusion, technical analysis alone would have failed in giving us a clear buy signal at around $1.25 a share in February and March of 1997. There were NO clear technical signs that Best Buy's stock price was about to stage a 4,000% rally or a rally of any kind. Perhaps we will have better luck with our timing and mathematical analysis.

**TIMING & MATHEMATICAL ANALYSIS:**

After going public in 1985 at around $0.05 a share (split adjusted) the company's share price gradually increased until November of 1994 when it set an intermediary top of $4.71. Regrettably, after looking at the stock price composition my mathematical and timing work has failed to yield a clear result. In other words, Best Buy's stock price had no clearly identifiable cyclical, structural or internal time frameworks associated with it.

While a rare occurrence, some stocks do not have such a structure. They tend to oscillate on their own accord and without as much of a hint as to what the future holds. It would not be at all inappropriate to file such stocks under a "Wild Animal" category and forget about them. Particularly, when the fundamental and technical analysis results have failed to yield anything worthwhile. Based on my personal experience, it is best to steer clear of such stocks.

**CONCLUSION:**

Best Buy Inc gave us no warning or evidence in 1997 that it was about to stage a massive 4,000% rally over the next 9 years. In fact, all of our analytical metrics have failed in predicting the upcoming rise. Sometimes it is just as important to know when it is time to take a position as it is when it is time to walk away. Best Buy presents us with a clear illustration as to why you should have walked away, even though the stock was about to stage a massive rally. Despite its general undervaluation at its 1997 bottom, the future was anything but clear.

From the fundamental perspective, there was no way to know if the company would be successful in making their new store concepts work and if they would be able to improve their margins. In addition, it was impossible to anticipate when the company would accelerate their new store growth and to what an extent. Certainly not in 1997 and certainly not when the company's stock was selling at around $1.25 a share.

Our technical and mathematical analysis did not fare much better. Both have failed to predict an upcoming surge in the share price. While our technical analysis did suggest an entry point in November of 1997 at $3 a share, when the stock price broke above its previous high, neither the fundamental nor mathematical side of the analysis would warrant a position.

In conclusion, even thought Best Buy's stock price went on to gain 4,000% between 1997 and 2006, there was no prudent way to take a position in the stock in either 1997 or early 1998. By the time the fundamental picture was starting to clear up, the stock price had already surged to $40 a share. In other words, the only way to take position in the stock was to speculate or to have it as a small allocation within your overall well diversified portfolio. It would have been impossible to benefit otherwise.

**<u>Final Prescription: Sometimes It's Better To Walk Away</u>**

# <u>One Million Chicken Burritos</u>


| **Company Name:** Chipotle Mexican Grill, Inc | **Stock Symbol:** CMG | **Industry:** Restaurants |
|---|---|---|
| **Percent Appreciation:** 1,465% | **Number of Bags:** 14.6 | **Holding Period:** 8.5 Years |
| **Entry Date & Price:** Nov, 2008 @$42.20/share | **Exit Date & Price:** Current ($660.50/share) | **Original Investment($10,000):** $146,500 |

**Company Description:** Chipotle Mexican Grill, Inc., together with its subsidiaries, develops and operates fast-casual and fresh Mexican food restaurants. As of December 31, 2013, it operated approximately 1,600 restaurants; and 6 ShopHouse Southeast Asian Kitchen restaurants. The company was founded in 1993 and is based in Denver, Colorado. The company focuses on trying to find the highest quality ingredients they can to make great tasting food, on building a special people culture that is centered on creating a team of top performers empowered to achieve high standards, on building restaurants that are operationally efficient and aesthetically pleasing, and on doing all of this with increasing awareness and respect for the environment. The company expects to open between 180 to 195 additional stores in 2014.

**Quick Trading Overview & Objective:** The Company went public in January of 2006 after being spun off from McDonalds. While the company's IPO price was set at $22 a share, the price immediately doubled at the open, to trade at $45. The share price continued to appreciate over the next 2 years. Running up 200% before collapsing 70% in the midst of 2008 financial crisis. Subsequently, the company's share price went on to appreciate over 1,550% between 2009 bottom and today (as of 7/23/2014 @ $660.50)

We will now go back in time and take an in depth look at the company in order to determine if we could have taken a long position in either 2006 or 2008-2009. More importantly, we will look at Chipotle's fundamental/trading patterns over the last 8 years to ascertain if we would have been able to maintain our position over such an extended period of time in order to walk away with such massive gains.

**FUNDAMENTAL ANALYSIS:**

In order to establish a clear picture of what had happened between 2006 and today we must first analyze the fundamental growth of the company over the last 8-10 years.

| Key Statistics | 2006 | 2014 |
|---|---|---|
| Price Per Share | **$42** | $660 |
| Market Cap | $1.3 Billion | $20.4 Billion |
| Earnings Per Share | $1.29 | $10.66 |
| P/E Ratio | 31 | 62 |
| Price/Sales Ratio | 1.58 | 5.66 |
| Price/Book Ratio | 2.74 | 11.70 |
| Revenue | $823 Million | $ 3.63 Billion |
| Net Income | $41.4 Million | $356 Million |
| Annual Earnings Growth | 31% (revenue) | 20% |
| Total Cash | $154 Million | $804 Million |
| Total Debt | $ 0 Million | $0 Million |
| Book Value Per Share | $15.3 | $56.51 |
| Shares Outstanding | 31 Million | 31 Million |
| Total Assets | $604 Million | $2 Billion |
| Shareholder Equity | $474 Million | $1.54 Billion |

As we look at the data above, one thing jumps out at us immediately. Just how overvalued the stock is. Not only in 2006, but even more so today. With a P/E of 62, a P/S ratio of 5.66 and a P/B ratio of 11.70, Chipotle's has one of the highest valuation multiples in the restaurant industry and on par with some of the fastest growing technology companies out there. In comparison, another high flyer Apple Inc (AAPL) has a P/E of 16, a P/S ratio of 3.27 and a P/B ratio of 4.8. Clearly illustrating just how expensive Chipotle's stock is.

Despite its substantial overvaluation levels (by any traditional measure) Chipotle was able to demonstrate significant growth in most of its metrics over the last 8 years. During this time revenue grew 341%, net income increased by 768%, book value grew by 273% and shareholders' equity increased by 225%. While an impressive performance, the numbers above do NOT justify the 1,465% rise in the company's stock price.

We must now go back to 2006 and study the company in greater detail in order to determine why the company was selling at such an expensive valuation back then and what was the catalyst behind its stock price going even higher. Most importantly, we have to figure out if we would have been smart enough to take a long position in either 2006 or 2008/09.

Chipotle's fundamental growth and investment story is best understood if we break it down into 3 categories.

1. New Store Growth
2. Margin Improvement
3. New Concepts & Future Growth

By the time the company went public in 2006, Chipotle had 500 restaurants and growing at approximately 100 additional stores per annum. By the end of fiscal 2013 the company operated 1,595 restaurants, with 185 stores being opened in 2013 alone.

In other words, over the last eight years the company has been able to grow its new restaurant base at an annual rate of 27.5%. More importantly, Chipotle can continue to grow its restaurant base at the same pace for the foreseeable future. By comparison, other fast food giants such as McDonalds and Subway have 35,000 and 33,000 worldwide restaurants respectively. Suggesting that if Chipotle continues to perform as it has done over the last decade it might, in theory, continue to grow at the same rate for at least another 10 years. This was certainly the case back in 2006 when the company had only 500 stores.

Further, Chipotle's restaurant-level operating margins are among the best in the industry at 26.25%. Suggesting that the company can continue on with their aggressive growth plans for the foreseeable future and without any additional outside capital. Finally, the company has a number of new concepts in development. They include ShopHouse Southeast Asian Kitchen with 6 restaurants and Pizzeria Locale with only one location. In short, investors in the company anticipate that Chipotle's management will be able to convert these new growth seeds into successful concepts that can grow at least as fast as Chipotle itself.

When we put such factors together, in addition to their great tasting food, we begin to understand why Chipotle was, and still is, selling at such a high multiple. Simply put, investors in the company anticipate Chipotle to continue on with its impressive 25-30% growth trajectory for the foreseeable future and without any need for additional capital.

Whether or not such thinking justifies Chipotle's speculative valuation levels is an entirely different matter. Coming from a strong value oriented background my initial reaction would be NO. That would certainly be the case in 2006 or right after the IPO.

Based on my own trading experience it is wise to avoid trading in IPO's right after they become available. It typically takes any given stock at least a few years to settle within its trading pattern. Until that happens it is next to impossible to determine if the stock will decline or surge higher. That is further complicated by the fact that most companies go public at the highest multiple possible, leaving very little upside for new investors.

Point being, despite Chipotle's fundamental strength and its future growth opportunity it would not have been a wise investment decision to invest in the company right after its IPO. Not only because the company's stock price doubled right at the open, putting its valuation out of reach, but also because it is smart to allow newly public companies to first set their trading patterns. And while this would render our 2006 entry point obsolete, the market presented us with even a better opportunity in late 2008 and early 2009 when Chipotle's stock price reached a low point of $39 a share. A 75% decline from its 2007 top.

Despite this massive drop in its share price due to a 2008 financial crisis, Chipotle's fundamental picture remained intact. In fact, in 2008 alone the company increased its revenue by 22.7%, grew its sales to $1.3 Billion, opened 136 new restaurants, repurchased $100 million is stocks and maintained its operating margins at 21.5%.

In short, the overall business was performing incredibly well, yet the company was selling at a valuation level that was, for the first time, reasonable. With a market cap of $1.2 Billion, a P/E ratio of 16.52, a P/S ratio of 0.92 and a P/B ratio of 1.9, the valuation of Chipotle was sensible. Particularly when you take the future growth rate and opportunity into consideration. Making an investment in Chipotle at that point in time and from the fundamental perspective alone..... a no brainer. Let's us now see if the technical analysis at the time would have confirmed our fundamental decision.

**TECHNICAL ANALYSIS**


Since our fundamental analysis did yield a strong buy signal for Chipotle's stock in late 2008 and early 2009, we must now concentrate on the technical side of the equation to see if such a decision would have been confirmed.

As the chart above shows, the company's stock price collapsed over 75% between December of 2007 and November of 2008. In the midst of the 2007-2009 financial crisis. In fact, Chipotle's stock price established a clearly defined down trending channel throughout the move. The price then followed this channel all the way down into its 2008 bottom. The stock price proceeded to bottom at $39 a share and then immediately broke out at around $42.20 in November of 2008.

Giving us a clear sign that the stock price might have bottomed. Any analyst following the company should have watched for this development very closely. It would have been the first sign that the stock price has corrected and is in the process of a bounce. While it would be unclear how long the bounce would last, when we combine such information with our mathematical and timing work below, we could have assumed that Chipotle's stock price was about to stage a massive multi-year rally.

A second entry point opportunity presented itself in March of 2009 when the company's stock price broke above its previous high at around $65 a share. Further confirming the change in trend and suggesting that the stock price has much more room on the upside.

In conclusion, technical analysis did confirm our fundamental analysis with two clearly defined buy signals. When the stock price first broke out of its down trending channel in November of 2008 and when it pushed above its previous high in March of 2009. Any investor closely following the stock should have been able to take a position in November of 2008 at around $42.20 a share. Particularly, when you take our mathematical and timing work into consideration.

**TIMING & MATHEMATICAL ANALYSIS:**

As was suggested earlier in the book, both the overall stock market and individual stocks tend to move according to their own cyclical compositions. A number of cyclical examples were given, including a 5-year and a 17-18 year cycles. Showing that the stock market moves in clearly defined patterns.

While it is certainly possible to identify the internal mathematical structure of almost every financial instrument, a long trading history is a must. For individual stocks, a 15 to 20 year trading history is necessary. Anything less than that would not yield appropriate results.

Since Chipotle's stock first started trading in January of 2006, it would have been impossible to ascertain the stock's internal mathematical or timing composition by either 2008 or 2009. Even today. Yet, despite our inability to figure out what the stock itself would do, we did have the next best thing available to us. The overall stock market.

As Chipotle's stock price was collapsing in 2008, so was the stock market. In fact, between October 11th, 2007 and March 6th, 2009 the Dow declined close to 7,500 points or 55%. A massive mid cycle collapse reminiscent of the 1972-1974 and 1907-1908 declines. An analyst working with the overall cyclical composition of the market would be aware of the following facts at the time.

- The overall market is tracing out a 17-18 year secular bear market that started in 2000.
- The 2007-2009 bear market leg represents a mid cycle collapse where 50% or more declines are typical.
- The bull market of October 10th, 2002 to October 11th, 2007 lasted exactly 5 years. Suggesting that the upcoming mid cycle decline would last 1.5-2 years.
- Mid cycle bottoms are typically followed by either a 2-year or a 5-year bull market runs.

In other words, an analyst working with the mathematical and cyclical composition of the stock market would have had a very good understanding that the stock market was likely to hit a bottom in the early 2009, followed by a strong rally. This was further confirmed by a number of other indicators converging on March of 2009 as a high probability turning point. Once again, the methods of the analysis that have lead to such a conclusion can be studied further in my other book Timed Value.

When it comes to investing in Chipotle, this type of an analysis would have been of great help for a number of reasons. First, we would have realized that Chipotle's share price is likely to stage a strong recovery if the market was to turn around and to stage a multi-year bull market rally. Since no fundamental reasons, outside of general overvaluation, existed for the company's stock price to decline, it would have been logical to assume that Chipotle's stock price would recover as soon as the market does. Second, the company was growing at a rapid pace despite the economic collapse and was now selling at a reasonable valuation. Finally, an analyst familiar with all of the above would be watching the company's stock for a clear technical bottom and a confirmation. With a clear intention of purchasing the stock once the confirmation was obtained.

This confirmation was obtained during the 3rd week of November of 2008 when the company's stock broke out of its down trending channel at around $42.20. A long position should have been initiated at that time.

**The result?**

Chipotle' stock price had appreciated 1,465% (14.7 bagger) between its November of 2008 bottom and today.

**GETTING IN AND OUT OF THE STOCK**

As you very well know and as was suggested before, taking a trading/investment position in a Tenbagger at the appropriate time is only half the battle. Staying put, increasing your position and not being forced out to sell at the wrong time is the other side of the coin. After all, it wouldn't be a good idea to take a 100% profit, only to see your stock go up another 20,000% over the next decade. As human beings we are wired to buy and sell at exactly the wrong time. Hence the inability to outperform the market. When it comes to Tenbaggers we must have a clearly defined set of trading rules that will help us mitigate the risk of being wrong (Please see the Tenbagger Trading Rules & Maximizing Returns chapter).

Yet, it is equally important to know when to get out and when to go short. In order to protect your profits and to profit from the stocks subsequent decline. In the case of Chipotle, today's valuation levels and the overall macroeconomic setup present us with a unique opportunity to look at the other side of the coin.

Even though the stock price has appreciated close to 1,500% over the last 5 years and even though the company is performing incredibly well on the fundamental level, Chipotle's stock is in a very dangerous territory. For a number of reasons.

First, the valuation itself. With a P/E of 62, a P/S ratio of 5.66 and a P/B ratio of 11.70, Chipotle's stock price trades at levels typically reserved only for extremely fast growing and incredibly profitable tech companies. And while the company is executing very well, today's price offers no room for a single misstep. In other words, even if the company continues to grow at 25-30% per annum, its stock price offers very limited upside and extreme levels of risk.

Second, the overall stock market is in a bubble territory as well. Just as it was at 2000 and 2007 tops. Suggesting that a significant correction is just around the corner. Typically, when such corrections develop we can anticipate overpriced stocks such as Chipotle to decline at X multiple to the overall market. For instance, when the Dow declined 55% between 2007 and 2009, Chipotle's stock price declined 75%. Giving it a 1.4X multiple. Suggesting that if the Dow is to go through a 30% correction between 2014 and 2017, Chipotle's stock could decline as much as 40-50%.

When we put two and two together, it would make perfect sense for investors in Chipotle to exit the stock at this time and to consider going short once the breakdown confirmation is received. In fact, looking at the chart alone, if the overall stock market is to correct over the next few years, as some of my other forecasts suggest, it is highly probable that Chipotle's stock price will retest its 2012 low of $243. That would mean a 64% collapse in its stock price over a 2-3 year period of time.

This presents investors in Chipotle with a unique opportunity to A. Sell at the top B. Profit on the short side of the trade and C. To enter Chipotle's long side at a later date and at a much better valuation level. In order to benefit from the subsequent bounce. Once again, this concept will be further reviewed in our Tenbagger Trading Rules & Maximizing Returns chapter.

**CONCLUSION:**

Chipotle Mexican Grill (CMG) presents us with a perfect case study of what to look for in potential Tenbaggers, when to take position and when to exist.

One of the things we have learned right away is that it wouldn't be a wise decision to take a position in Chipotle's stock right after its IPO in January of 2006. That was due to our inability to determine the stock's structural trading patterns, price doubling at the open and subsequent excessive valuation levels.

Yet, the stock presented us with another buying opportunity at the end of 2008, when the company's stock price declined 75%. At that time, Chipotle offered us a perfect Tenbagger investment opportunity for the following reasons.

**Fundamental:** Even though Chipotle's stock collapsed 75% in the midst of the 2007-2009 financial crises, the company itself was doing incredibly well. Opening over 100 new stores, improving margins and growing at 25-30% per year. What's more, for the first time since going public, Chipotle's valuation metrics were not too expensive.

**Technical:** After establishing a clearly defined down trending channel between its 2007 top and its 2008 bottom, Chipotle's stock broke out of this channel in late November of 2008 at $42.20, giving us a clear signal to take a long position.

**Timing:** An analyst aware of the overall structure of the market would know that a bear market mid cycle leg would terminate in the early 2009. This information alone would ensure that an analyst who was following Chipotle's stock would be watching closely for an anticipated technical bottom.

It is not often that we get all three disciplines confirming each other. Yet, when we do, it becomes increasingly easier to take a position as the risk/reward profile clearly benefits the investment. Just as was the case with Chipotle's stock in November of 2008.

Finally, not only did Chipotle's stock present us with a perfect case study of when to go long in a potential Tenbagger, it also teaches us when to get out. As is the case today. Making Chipotle's stock a perfect financial instrument to follow over the next few years. With an ability to profit on the short side before reversing course at the next bear market bottom to benefit from the next leg up. Perhaps just in time for its next Tenbagger run.

**<u>Final Prescription: Fundamental Analysis + Technical Analysis + Timing Analysis = A Massive ROI.</u>**

# Let's Play a Game


| **Company Name:** Bally Technologies Inc | **Stock Symbol:** BYI | **Industry:** Gaming |
|---|---|---|
| **Percent Appreciation:** 7,800% | **Number of Bags:** 78 | **Holding Period:** 14 Years |
| **Entry Date & Price:** October, 2000 @ $1.00 share | **Exit Date & Price:** August,2014 Takeover @ $83.30 | **Original Investment($10,000):** $780,000 |

**Company Description:** Bally Technologies, Inc. is a diversified, worldwide gaming company that innovates, designs, manufactures, operates, and distributes advanced technology-based gaming devices and systems, as well as interactive and mobile solutions. As a global gaming-systems provider, we offer technology solutions which provide gaming operators with a wide range of marketing, data management and analysis, accounting, player tracking, security, and other software applications and tools to more effectively manage their operations. Our primary hardware technologies include spinning-reel and video gaming devices, specialty gaming devices and wide-area progressive systems for traditional land-based, riverboat, and Native American casinos, video lottery and central determination markets, and specialized system-based hardware products.

**Quick Trading Overview & Objective:** While Bally Technology's stock price has appreciated only a little over 300% since first going public in 1982, we will begin our analysis at a multi decade bottom that had occurred in 1999-2000. Bally's stock price hit bottom in May of 2000 at around $0.42 a share before staging an impressive 20,000% rally (a 200 bagger) between then and the January of 2014. We will initiate our coverage at this 1999-2000 bottom of around $0.40-0.50 a share (split adjusted) in order to see what had caused the company to appreciate over 7,800% between its tradable bottom and today.

We will now go back in time and take an in depth look at the company in order to determine if we could have taken a long position at that time. More importantly, we will look at Bally's fundamental and trading patterns over that period of time in order to ascertain if we would have been able to maintain our position over a 14 year period of time and/or until the takeover bid for Bally's Technologies was announced on August 1st, 2014 by Scientific Games Corporation at $83.30 a share.

**FUNDAMENTAL ANALYSIS:**

In order to establish a clear picture of what had happened between 1999 and today we must first analyze the fundamental growth of the company over the last 15 years.

| Key Statistics | 2000 | 2014 |
|---|---|---|
| Price Per Share | **$1** | $77.70 |
| Market Cap | $39 Million | $3 Billion |
| Earnings Per Share | $(1.47) | $3.17 |
| P/E Ratio | N/A | 24 |
| Price/Sales Ratio | 0.08 | 2.04 |
| Price/Book Ratio | N/A | 10.3 |
| Revenue | $478 Million | $ 1.14 Billion |
| Net Income | $(15 Million) | $124 Million |
| Annual Earnings Growth | 4% (revenue) | 39% |
| Total Cash | $34 Million | $90 Million |
| Total Debt | $ 354 Million | $580 Million |
| Book Value Per Share | $N/A | $5.81 |
| Shares Outstanding | 39 Million | 39 Million |
| Total Assets | $351 Million | $1 Billion |
| Shareholder Equity | $(51 Million) | $120 Million |

As we look at the data above, one issue becomes immediately apparent. Just how much out of shape the company was back in 2000. And not just in 2000, between 1996 and 2000 the company lost a net total of $170 Million. A massive loss considering the company had a debt load of $354 Million, negative equity and a market capitalization of just $39 Million. In other words, at least from the financial statement perspective alone, the company was dying.

Further, while Bally's financial performance had improved considerably between 2000 and 2014, this improved performance hardly justifies the 7,800% rise in its stock price. With the revenue base growing at just 138% over a 14 year period of time and with the shareholders equity expanding by just $170 Million, it becomes puzzling how Bally's market capitalization could have expanded from $39 Million to $3 Billion. Finally, while the company was selling at depressed valuation levels throughout 1999 and 2000, with a Price/Sales ratio of 0.08, it not entirely evident if this simple turnaround is what had caused the company's stock price to expand by 78 bags.

We must now go back into the 1995-2000 period and study the company in greater detail in order to determine why the company was underperforming, losing money and on a verge of a financial collapse during that time. Further, we must ascertain what the company did between 2000 and today in order to turn things around. And if this improved performance could have been anticipated. Most importantly, we have to figure out if we would have been smart enough to take a long position in either 1999 or 2000.

As we begin to analyze Bally's in the 1990's we immediately realize just how out of shape and dysfunctional the company was at the time. On many different levels. For instance, the company was involved in so many different businesses or lines of business that it would have been virtually impossible for anyone to truly understand their operations. From developing slot machines and gaming systems to operating river boat casinos, from international partnerships to running their own slot machine route operations. And the list goes on. In short, it would have been impossible to fully comprehend, let alone analyze the company from the fundamental perspective alone.

Part of the problem stemmed from the company's mismanagement in the past and a number of acquisitions/takeovers Bally's went through in the 1990's. So much so that by 2000 Bally's stock was on the brink of being delisted from Nasdaq. Hence the low price. Yet, by the end of 2002 the company was earning record revenues and profits and was even able to move from the Nasdaq to the New York Stock Exchange.

What had caused such an improvement in operations?

A turnaround of sorts. The company began to consolidate its business lines and divest non-core assets. Selling a number of properties and businesses in the process, raising additional cash and paying off debt. Further, the company refocused on technology and slot machine, introducing a number of popular products throughout 2000's. Today, Bally Technologies has a much simpler structure and business. Deriving all of their revenue from just three lines of business, gaming equipment (34%), gaming operations (41%) and systems (25%).

If we were to analyze the company in 1999-2000 we would be unable to predict that the company would A. Begin its turnaround efforts  B. Start consolidating and selling off assets  and C. Be successful. In fact, after pouring over company's records and financial statements during that time I have yet to find one management discussion alluding to the fact the company will attempt a turnaround.

In other words, it would have been impossible to predict the company's turnaround from the fundamental perspective alone for the following reasons.

- The company's structure was too complicated.
- Financial mismanagement and a heavy debt load
- The company was on the verge of a financial collapse.
- No discussion of any turnaround attempt by the company's management.
- No discussion of consolidation and asset divestiture.

The question becomes, would investors be able to forecast such changes on their own?

**Absolutely NOT.**

The fundamental developments above could not have been anticipated nor predicted. Particularly when the management of the company had failed to mention it to outside investors.  And while we could have assumed that the company would institute additional turnaround steps, we had no way of knowing if they would work. Plus, to what an extent the management would go. Forcing us to make an investment decision on hope alone.  An unacceptable way to approach any sort of an investment decision.  Perhaps technical analysis can offer us a better answer.

**TECHNICAL ANALYSIS:**


Since the fundamental analysis has failed to yield any sort of a buy signal for Bally's stock in 1999-2000 we must now concentrate on the technical side of the equation.

As the chart above shows, between 1993 and 2000 the company's stock collapsed from $34 a share to less than $0.50 a share. What's more, this substantial down move had occurred during one of the strongest bull markets in history.

Unfortunately, outside of dropping 99%, Bally's stock gave us very few clear technical clues that it would either top out in 1993 or bottom out in 2000. Outside of a clearly defined downtrend between October of 1993 and 1999-2000, we have very little to go by. As was mentioned earlier, by 2000 Bally's fundamental and stock price performance has gotten so bad that it received a number of delisting warnings/notices from the Nasdaq. In other words, any analyst looking at this stock and the company's fundamental performance at the time would have assumed that the Bally's stock would be delisted. Ending up in the pits of OTC trading.

Yet, despite the setbacks Bally's stock price bottomed at $0.42 in May of 2000 and then went on to appreciate to $34 by April of 2004. An 8,000% gain in less than 4 years. Unfortunately, the stock itself gave us very few technical clues that it was about to stage a massive multiyear rally. In fact, it wasn't until March of 2001 that we would have gotten our first real technical confirmation that the Bally's stock price might be going through something more than a simple bounce. By that time the stock was already selling at $3 a share. While an entry at that point would have still resulted in a 10-20 bag run over a 5-13 year period of time, such performance would have been far below our anticipated threshold.

In conclusion, technical analysis alone would have failed in giving us a clear buy signal anywhere close to our anticipated entry point of $0.50-1.00 a share in the second half of 2000. There were NO clear technical signs that Bally's stock price was about to stage an 8,000% rally or a rally of any kind. Perhaps we will have better luck with our timing and mathematical analysis.

**TIMING & MATHEMATICAL ANALYSIS:**

After going public in 1982 at around $20 a share (split adjusted) the company's stock price has failed to follow any clearly identifiable cyclical or structural frameworks associated with it. While the stock appears to move in accordance to an eight year cycle, bottom-to-bottom, this cycle is questionable at best. If anything, the stock appears to move inverse to the overall market about 50% of the time.

For instance, Bally's all time low in May of 2000 had occurred just a few weeks after the Nasdaq set its blow off top and started to collapse. What's more, while the overall market went through a 2.5 year bear market, setting a secondary bottom in March of 2003, that was the exact time of Bally's high. And while the overall stock market surged higher between 2003 and 2005, the company's stock price proceeded to decline by over 60%. Only to realign with the overall stock market thereafter.

In short, just as with our Best Buy analysis earlier, Bally's stock price did not have a cyclical nor timing structure associated with it. Even following the overall structure of the market would have proven to be futile in this case. Any investor who would have been familiar with the overall structure of the market and the topping of the 18 year cycle in 2000 (1982-2000 bull market) would have never taken a position in Bally's stock in the early 2000. Or 99% of other stocks for that matter. Let alone a stock of the company that was on the verge of a financial collapse and delisting.

As mentioned earlier, such stocks tend to oscillate on their own accord and without as much of a hint as to what the future holds. It would not be at all inappropriate to file such stocks under a "Wild Animal" category and forget about them. Based on my personal experience, it is best to steer clear of such stocks.

**CONCLUSION:**

Bally Technologies Inc, gave us no warning or evidence in 1999/2000 that it was about to stage a massive 8,000% rally over a 14 year period of time. In fact, all of our analytical metrics have failed in predicting the rise.

Sometimes it is just as important to know when it is time to take a position as it is when it is time to walk away. Bally Technologies presents us with a clear cut case as to why we should have walked away, even though the stock was about to stage a massive rally.

From the fundamental perspective alone, we would have been unable to determine if the company was about to stage a successful turnaround campaign or fall into bankruptcy. The management wasn't talking, the company's operations at the time were beyond complex, the stock was about to get delisted from the Nasdaq and there were no clear signs that things were about to improve. Certainly, there were no signs that the company was about to start a major consolidation/divestiture drive.

Our technical and mathematical analysis did not fare much better. Both have failed to predict an upcoming surge in the share price. While our technical analysis did suggest a possible entry point in March of 2001 at $3 a share, when the stock price broke above its previous high, neither the fundamental nor the mathematical side of the analysis would warrant a position.

In conclusion, even thought Bally Technologies' stock price went on to gain 8,000% between 2000 and today, there was no prudent way to take a position in the stock in either 1999 or 2000. By the time the fundamental picture was starting to clear up, the stock price had already surged to $20-30 a share. In other words, it would have been impossible to predict Bally's stock rise.

**<u>Final Prescription: Walk Away</u>**

# Tenbagger Trading Rules
# Maximizing Returns

While analyzing individual stocks in previous chapters we have looked at a number of variables that would allows us to first identify potential Tenbaggers, analyze their potential and then possibly take a position.  Yet, as we study the companies above we soon come to a realization that it is just as important to know when to get out of such stocks as it is to know when to initiate an original position. Doing so at the right time would not only prevent unnecessary losses, but in many cases it would allow us to double or triple the overall return on an underlying position (capital gains taxes are not considered in this analysis).

For instance, while Apple's stock price had appreciated 7,500% over the last 11 years, the stock itself went through two significant corrections during the same period of time. A 60% drop during the financial crisis of 2007-2009 and a 45% drop in 2012-2013. What's more, another large drop is just around the corner.

Therefore, if we are able to .....

A. Rotate in and out of such stocks at the right time and
B. Even go short

....our returns for such underlying Tenbaggers would skyrocket. For example, in the case of Apple our return would skyrocket from 7,500% to 14,312%. A 143 bagger over the same period of time. Not bad.

That is why it becomes incredibly important to lay out the necessary framework of getting in and out of our Tenbaggers at the right time. In this chapter we will look at each individual Tenbagger we have decided to invest in (Keurig, Apple and Chipotle) in order to ascertain at what points we should have gotten out and at what points we should have re-established our positions in the underlying securities.

We will also determine if it would have made sense to go short at certain times to boost our overall returns. Finally, we will establish a clear set of trading rules that we should be able to apply to our future Tenbaggers.

**Trading In and Out of Keurig Green Mountain (GMCR)**


To summarize, Keurig Green Mountain's stock price had appreciated 49,600% between 1999 and today. Yet, if we were fortunate enough to take a long position in the late 1999 or early 2000 it would not have been an easy ride up. That would be due to a fact that Keurig suffered through a number of serious corrections during the holding period. To be exact, the stock had suffered through a 60% drop between 2001 and 2002, 50% drop in 2008 and a gut wrenching 84% collapse between 2011 and 2012.

One of the first things we have to realize in our attempt to anticipate and to time such large moves in the underlying stocks is the fact that fundamental analysis will not be very useful. We cannot rely on such an analysis due to a simple fact that the stock market and individual stock movements tend to lead the fundamentals at least 95% of the time. In other words, by the time the actual numbers filter through onto financial statements or into press releases the corrections we are trying to identify are likely to be over. Or nearly over. The only fundamental metric that would be useful in our case is the general overvaluation of an underlying security.

For instance, if company's stock price had appreciated so much over a relatively short period of time that it now sells above any reasonable valuation level, even if the future is otherwise bright, it is highly probable that the underlying stock price might correct fairly soon. Once we understand such fundamental shortcomings, it leaves us no choice but to concentrate on the technical and mathematical/timing side of the equation.

Our first 60% drop in Keurig's stock price had occurred between 2001 and 2002. To be exact, the company's stock price topped out in July of 2001 at around $2.90 a share and then proceeded to collapse into October of 2002 bottom of $1.00 a share. A 65% decline.


Once we look at the chart a number of things become immediately apparent.

From the fundamental perspective alone, by the time 2001 top had arrived the company's stock price had already zoomed up 1,100% from our 1999 proposed $0.25 entry point. Going parabolic on a number of occasions. In other words, while Keurig coffee systems were starting to get traction, there was no way for the fundamentals to keep up with a rise in the stock price. The underlying stock was overpriced and overextended.

An investor applying mathematical and timing work to the overall market would be aware that the overall stock market is going through its initial bear leg and that this bear leg was not scheduled to bottom out until October of 2002. Rendering 2001-2002 period as a high risk one.

Given the setup above, any investor in Keurig's stock should have shifted into a highly defensive mode in 2001. Watching the technical side of the stock closely for any sign of a technical breakdown. As a technical breakdown at that juncture would have likely yielded a substantial decline in the company's stock price.

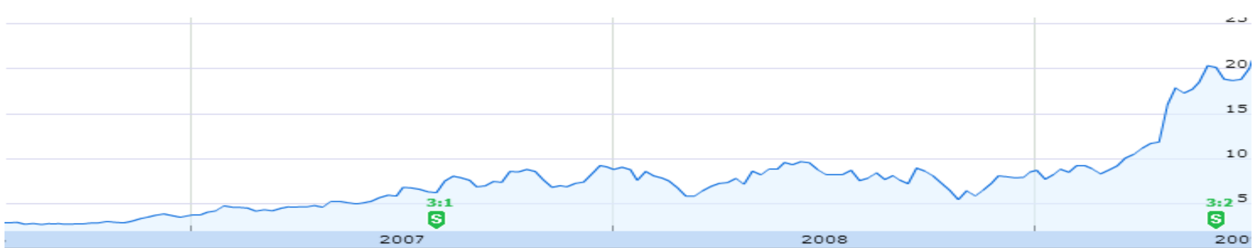
That is exactly what happened in August of 2001 when Keurig's stock broke below its lower low at around $2.50 a share and headed lower. At that point, any investor who was watching the stock should have A. Sold his holding and B. Gone short. The overall probability of a significant stock decline was too great not to do so. After all, the technical analysis was confirming the move.

**GMCR Trade #1:** Sell and go short at $2.50 a share. Realized profit from the previous entry point.... $2.25 a share or 900%.

As the chart above illustrates, Keurig's stock price proceeded to bottom out in October of 2002 at around $1.00 a share. Around the same time the Dow hit a low point for its 2000-2002 bear leg. An analyst familiar with the overall mathematical composition of the stock market would be aware of the fact and would be, once again, watching the stock price very carefully for any sign of a bottom and subsequent trend reversal. Ready to cover and go long at a moment's notice. And indeed, such a confirmation arrived in March of 2003 when the company's stock price pushed above its previous high at $1.25 a share.

**GMCR Trade #2:** Cover our short position at $1.25 a share and go long. Realized profit from the previous entry point..... $1.25 or 50%. Overall compounded rate of return 1,500%.

What followed was an uninterrupted bull market in Keurig's share price between March of 2003 and December of 2007. During this time the company's share price appreciated from $1.25 to approximately $9 a share. And that's where it gets interesting. An investor working with the overall mathematical and cyclical composition of the stock market would be aware of the 5-Year bull cycle terminating in the late 2007 and an impending secular bear market mid cycle correction. Similar to those in 1907-1908, 1941-1942 and 1972-1974. In other words, with the fundamental analysis flashing signs of general stock market overvaluation and with the mathematical work suggesting a deep decline, it was highly probable that Keurig's stock price was about to go through another correction.




Applying the same principals, investors in this stock should have been looking for trend reversal at the end of 2007 to take advantage of Keurig's potential bear leg. Unfortunately, our bear raid in GMCR in 2007-2009 would have, more or less, failed. Without outlining every trade, we would have ended up trading in and out of the stock twice during this period. Selling our original long position and going short at around $8 a share in the early 2008 and then covering and going long in May of 2008 at $8 a share. Only to go short again in October of 2008 at $8 a share. Then covering this position in March of 2009 in order to go long at $10 a share.

**GMCR Trades #3-6:** Trading in and out of the stock in 2007-2009. All entry, short and exit points would have occurred at around $8.00 a share (+/- $0.50). Net realized gain from the previous entry point in 2003....$6.75 or 540%. Plus, a loss of $2.00 on the short side. Overall compounded rate of return 5,700%. New long entry point at $10 a share in March of 2009.

Even though our bear raid in Keurig's stock in 2007-2009 would have been a failure, we would have learned something incredibly important. We would have learned that the company's stock price showed strength in the face of one of the most brutal bear markets in history. And while most other high flying stocks collapsed to the tune of 60-80% during the same period of time, Keurig's stock remained within a tight trading range. Even rallying close to 100% in the mid 2008 when the rest of the stocks were going down.

Typically, such strength in the face of a falling market means that the stock price will recover at X multiple to market when a bear market ends and the overall market begins to recover. This would be of a particular interest to any analyst following the stock. Further, an analyst familiar with the overall mathematical and timing composition of the stock market would have been aware that the stock market was bottoming in the early 2009. At this point it would have made perfect sense to cover our short position and to go long when the technical picture confirmed. That happened in March of 2009 at $10.00 a share.

Subsequently, the stock performed just as its relative strength during a bear market of 2007-2009 had suggested. Surging from $10 to $108 a share by September of 2011. A 1,000% gain in two and a half years. Yet, any investor in Keurig should have been extremely concerned at this point or at least very cautious. The stock, once again, ran away from its fundamental base and was selling at extreme valuation levels.

And while the technical picture was incredibly strong and there were no impending bear markets on the horizon, extra caution at this juncture would have been justified. Once again, that was due to the stock's extreme fundamental overvaluation levels and its vertical rise over the preceding two years.


This caution would have been well justified. Keurig's stock price topped out in August of 2011 at a little over $100 a share and then distributed for a few weeks before starting a major leg down. An investor in the stock should have liquidated his long position and gone short at $80 a share. It was at that point that the company's stock price broke below its previous low, suggesting further downside. The stock price continued to collapse until it hit a bottom in July of 2012 at $17.50 a share. Delivering a gut-wrenching 84% loss in the process.

**GMCR Trade #7:** Exit our long position at $80 a share while going short at the same price/time. Realized profit from the previous entry point...... $70 or 700%. Overall compounded rate of return 45,600%.

By mid 2012 and after its 84% collapse, Keurig's valuation levels were, once again, more than reasonable. If anything, the stock was selling at a substantial discount considering its future growth potential. In addition, the stock trended down for exactly one year. This represents an important stock market cycle. Finally, given the extent of the collapse, one year time cycle and general undervaluation, an analyst following the stock should have been looking for trend reversal. This reversal was confirmed in November of 2012 when the stock price broke above its previous high at around $33 a share. A trader should have covered his short position and gone long at that point in time.

**GMCR Trade #8:** Cover our short position at $33 a share and go long at the same time. Realized profit from the previous entry point.......$47 or 59%. Overall compounded rate of return 72,504%.

After hitting its bottom, Keurig's stock price realigned with the overall market and staged a massive rally to $125 a share. Which brings us to today (8/14/2014 - $114) and the overall gain of $206.25. Overall compounded rate of return 274,065%. Making this stock a 2,740 bagger or yielding a return that is 5.5 times higher than our original gain of 49,600%.


Today, Keurig's stock price finds itself at the same juncture it was back in 2007 and 2011. While the company is doing very well, its valuation levels are once again out of sync with reality. What's more, the overall stock market is in its own overvaluation bubble and on the verge of another bear leg. In fact, any investor in Keurig should be following and watching the stock very carefully here. Looking for various signs that the top is in. Further, said investors should consider exiting the stock and going short, once again, as soon as the previous low of $90 is broken on the downside. Riding this stock down again before reversing course and going long at the next bear market bottom.

Before we analyze Apple's trading history, let's take a quick look at some of the trading rules we must comply with.

# An Important Set of Simple Trading Rules

An appropriate trading approach and a number of fixed trading rules is just as important, if not more so, than your overall technical, mathematical and fundamental analysis. In essence, by implementing strict trading rules and procedures you are able to take all of the guess work out of the equation. In other words, strict trading rules make sure you pull the trigger exactly where you should.

The rules below are based on a simple strategy of getting in and out of various stocks at the right price and time.

**Avoid Low Priced Stocks:** While it is possible to make large amounts of money with such stocks, for the most part, cheap stocks remain at low levels for extended periods of time. At times forever.

**Avoid Slow Trading Markets and/or Stocks:** These are the financial instruments that are stuck in a trading range. Do not invest in them until and unless the trend is broken, either to the upside or to the downside.

**Concentrate On Fast Moving Markets and/or Stocks:** This is where most of the money is made over the shortest period of time.

**Never Guess:** Take the guesswork (gut feeling) out of your decision making process. Develop strict trading rules that are followed 100% of the time. You should never guess if you have got it right. Let the market and/or your trading rules put you in and take you out.

**Always Follow The Main Trend:** You will always make money if you follow the main trend. Either up or down. Remember, stocks are never too high to buy if the stock market is going up and they are never too low to sell if the trend is pointing down.

**Always Use Stop Losses**: I cannot overstate this enough. Always use stop losses to protect your capital. Let the market prove if you are right or wrong. In the meantime, your capital base will remain safe.

**Buy At New Highs:** Believe it or not, but buying at new highs is the most profitable way to make money in the stock market. Most people believe that they must buy at the lowest price or in the valley. That couldn't be further from the truth. By buying at the new high you are moving with the main trend.

**Sell At New Lows:** In a similar fashion, selling or selling short at new lows is the best possible way to exist a stock. It confirms that the trend has changed while giving you the ability to exit your trade at a good price. More importantly, it allows you to trade with the trend and not against it.

**Never Commit To Anything:** Never attach your forecast to any fixed outcome. If you do, you will shift from a position of power to a position of fear and hope. Opening up your trading strategy to risk and losses. Instead, remain flexible and move with the market even if your forecast indicates otherwise.

**Move Stop Losses:** As the market or stocks continue to move with the main trend you must continue to move your stop losses up or down to avoid unexpected developments and to protect your profits. By doing so you eliminate the unnecessary risk of losing money.

**Don't Be Afraid To Be Out Of The Market:** There is absolutely nothing wrong with being out of the market completely. Sometimes for prolonged periods of time. It is better to sit on the sideline than to lose money. Particularly, when the direction of the financial instrument you are looking at is unclear.

**Don't Wait Until The Trend Changes:** DO NOT hold your losing position in **hope** of a trend change. That is how people lose most of their money. For instance, the bears who have been holding short positions throughout 2013 have been decimated (even though they will eventually be right). Once again, always move with the main trend.

**Get Out As Soon As You Realize That You Have Made A Mistake**: Even if your in-depth research shows one thing, the market might do something completely different. At such times you might realize that you have made a mistake. Do not hold your position and **hope** that the market will reverse itself and allow you to exit at a better price. Liquidate your position immediately.

**Always Wait For A Confirmation:** Do not establish a position until and unless your work is confirmed by the market itself. In most cases the market will do so by setting new highs or new lows. Only after receiving such a confirmation should you establish a trading position based on the main trend of the market and/or based on your own work.

**Avoid Hope & Fear:** This is probably the main reason why people lose money in the stock market. They trade and/or invest on emotion rather than technical, timing or fundamental work. They hope, pray and fear instead of following the main trend. Do not behave in such a fashion. Never trade based on hope or fear. Always follow the rules.

**Avoid Loss Averaging:** Contrary to a popular believe, it is not a good idea to buy more stock when the price declines after your original purchase. Buying more at a discounted price means you are going against the main trend and not with it. While you lower the overall purchasing price, the main issue remains. The main trend is down. Instead, you should average up when the stock price is going up. That way you are going with the trend.

Now that we have looked at the overall guidelines to profitable stock market operations, let's take a quick look at a simple set of specific trading rules.

**Rules For Trading In Stocks**

**RULE 1:** Buy at new high prices or old top levels.

**RULE 2:** Buy when prices advance above old low prices.

**RULE 3:** Sell when prices decline below old top levels or high prices.

**RULE 4:** Sell at new low price levels.

**RULE 5:** Wait to buy or sell until prices CLOSE above old highs or below old lows on the daily charts. Closing price is incredibly important.

**RULE 6:** Use stop losses. Your capital and your profits must be protected at all times with STOP LOSSES. Implement stop losses at 1-3 points above or below your original price and at the time of the original trade.

**RULE 7:** Do not lose money.

# Trading Apple and Maximizing Returns


To summarize, Apple's stock price appreciated 7,500% (75 bagger) between its 2003 entry point and today. In fact, as our earlier analysis showed, we would have taken a position in Apple, Inc stock in May of 2003 at $1.25 a share. Yet, it would not be an easy ride up. Over the last 11 years the stock had suffered a 60% drop during the financial crisis of 2007-2009 and a 45% drop in 2012-2013. Leaving us, once again, with two primary questions.

Would most investors be able to hold on to their Apple stock while going through such massive sell offs? And, should investors trade out of their positions and even go short when such declines occur?

As discussed earlier, most investors would not be able to sustain such massive drops without first getting out. Most likely at exactly the wrong time. That is why a proper application of set trading rules becomes so important. So much so, that in many cases it can easily double or triple the overall rate of return on the underlying stock. Easily turning Apple's 75 bagger into a 150 bagger over the same period of time. Let's now take a closer look at Apple's trading history to ascertain if we would have been able to trade in and out of the stock at the right times.

The first real decline in Apple's stock price took place during a bear market of 2007-2009. During this time the company's stock price declined from $29 to around $11.50 a share. A 60% collapse. Further, the mathematical/timing and technical composition of Apple's stock during the time was almost identical to the setup of Keurig's stock. Without repeating that analysis here, an analyst following Apple's stock and the overall market should have been aware that a bear market was about to begin and that the company's stock was likely to decline with the overall market. In other words, investors should have been on a heightened state of alert during this time. Ready to liquidate their long positions and to go short at moment's notice.

Finally, Apple's trading pattern during this time was almost identical to Keurig's as well. We would have traded in and out of the stock in the early to mid 2008 at a net zero gain/loss. Around $22-23 a share. However, we would have been able to catch the final decline in September of 2008, going short at approximately $21 a share and ridding the stock all the way down to its final bottom of $12 a share in March of 2009.


**AAPL Trade #1:** Buy Apple at $1.25 a share in May of 2003.

**AAPL Trade #2:** Sell Apple in January of 2008 at $22.50 a share. Net realized gain from the previous entry point in 2003....$21.25 or 1,700%.

**AAPL Trade #3:** Trading in and out of the stock in April and September of 2008 at around $22.5 a share. At net zero capital gain/loss.

**AAPL Trade #4:** Go short at $22.50 in September of 2008.

As was mentioned earlier, an analyst familiar with the overall composition of the stock market would have been aware that the market was likely to bottom in the first quarter of 2009. Any investor with access to such information should have been watching Apple's stock price for signs of a reversal into its subsequent bull market. Ready to cover his short position and go long at a moment's notice. This occurred in March of 2009 when the company's share price broke above $15 a share and pushed higher.

**AAPL Trade #5:** Cover our short position at $15 in March of 2009 and go long at the same time/price. Net realized gain from the previous short entry point...... $7.50 or 33%. Overall compounded rate of return 2,261%.

Following 2009 bottom Apple's stock price continued to rally unabated until reaching $100 a share price by September of 2012. This action was followed by a quick reversal and a subsequent 45% decline into its April of 2013 bottom.  Unfortunately, it would have been hard to anticipate this quick decline.

Outside a few fundamental reasons (management, slowing sales, guidance, etc..) very few people could have predicted this particular decline. Even with the help of our mathematical and timing work. If anything, our mathematical and timing work would have suggested that Apple's stock price would continue to appreciate until the bull market terminates in 2014.

Nevertheless, a position trader should have traded in and out of the stock at around $70 a share. At a net zero gain/loss. Bringing us to today.

**AAPL Trade #6:**  Considering trading in and out of the stock at $70 and today's price of $95, net realized gain from the previous entry point.....$80 or 533%. Overall compounded rate of return 14,312%.


Turning our original 75 bagger into a 143 bagger. While not a significant increase, it is still a substantial improvement from our original investment. Particularly, when you realize that the Nasdaq remains in the negative territory since its March of 2000 top. It is also important to note that much better entry and exit points are possible when an analyst or an investor is working closely with the underlying stock.

Most of the entry and exit points above were based on higher highs or lower lows on the long-term chart to illustrate the validity of the concept. When actual trades are executed it is possible to be just a few points or a few days away from the actual tops/bottoms. Improving our performance even further.

Finally, while it is highly probable that capital gain taxes will minimize the overall impact of the additional 6,800% ROI, this remains a strategy worth perusing. Particularly in today's secular bear market. For instance, right now (August 2014) would be an excellent time to start thinking about liquidating a long Apple position in preparation for an upcoming bear market of 2014-2017. If nothing else, any investor in Apple's stock should be on a heightened state of alert. Ready to sell his long position and go short at a moment's notice.

As the upcoming bear market leg develops, it is highly probable that Apple's stock will decline significantly due to its general overvaluation and a substantial bubble in the overall stock market. Triggering a decline similar, in both magnitude and duration, to the one sustained between 2007 top and 2009 bottom. Any investor executing the strategy above should be able to protect his gains, profit on the downside and re-enter his position at a much lower price when the foresaid bear market ends. Pushing his or her overall returns even higher.

**TRADING CHIPOTLE:**

As per our earlier analysis, we would have initiated our original long position in Chipotle's stock in November of 2008 at $42.20. A bear market of 2007-2009 was coming to an end and any potential investor in the stock should have been watching for trend reversal and a possible entry point. A down trending resistance line was broken to the upside in November of 2008 and a long position should have been initiated at that time.

**CMG Trade #1:** Buy CMG at $42.20 in November of 2008.

From its 2008 bottom, Chipotle's stock pushed higher unabated until reaching its interim top of $440 in April of 2012. Thereafter, the stock price proceeded to collapse 45% in 6 months. As with our Apple analysis above, there was no way to anticipate this particular collapse. Outside of a few fundamental and technical warning signs, there was nothing to suggest that Chipotle's stock was about to go through a substantial decline. Nevertheless, any investor in the stock at the time should have been concerned with technical development between April and June of 2012.

The actual breakdown in Chipotle's stock had occurred in early July of 2012 at around $380 a share. A trader should have liquidated his long position at the time and gone short.

**CMG Trade #2:** Sell CMG at $380 and go short at the same time/price. Net realized gain from the previous entry point.....$338 or 800%.

The stock price proceeded to quickly collapse to $242 by October of 2012. Throughout this collapse an analyst following the stock should have been watching for signs of a bottom. Since the overall bull market of 2009-2014 was still intact, it was prudent to assume that the stock would bounce as soon as the bottom was reached. And that is exactly what happened in December of 2012 when the technical picture reversed and the stock price pushed above a higher high at $270 a share. A short position should have been covered at the time and a long position should have been re-entered.

**CMG Trade #2:** Cover our CMG short position at $270 in December of 2012 and go long at the same time. Net realized gain from the previous entry point.....$110 or 29%. Overall compounded rate of return 1,161%.

Subsequently, Chipotle's stock price quickly recovered to around $675, where it remains today. Yielding a total gain of $853. Overall compounded rate of return of 2,900% vs. our original gain of 1,465%. Proving, once again, the validity of the strategy.

Yet, just as with the Apple Inc example above, investors in Chipotle's stock today (8/20/2014) should be on a heightened state of alert. Based on the stock's extreme overvaluation levels and the upcoming bear market of 2014-2017. In essence, investors in Chipotle's stock should be watching the stock very carefully for any signs of a technical breakdown. Ready to reverse position and go short at a moment's notice.

# SUMMARY & CONCLUSION

Throughout the book we have looked at 5 different Multi-Baggers, ranging from 14 Bags to 496 Bags, in order to ascertain what they have had in common. We have tried to understand what attributes have led to their success and if we would have been able to make an investment before their impressive run ups. Most importantly, we have tried to develop a system that would allow us to identify such "Tenbaggers" today.

During the process we have looked at the Tenbaggers in question from three different analytical view points. Fundamental, technical and mathematical/timing. From the very early on it became evident that a singular analytical framework would not allow us to identify such Tenbaggers with any degree of certainty. Yet, when we proceed to combine them, our chances for success increase dramatically. Giving us the ability to pick out 3 out of 5 Tenbaggers with a high degree of certainty.

Finally, the analytical system above presents us with a number of benchmarks we can use today to pick out the Tenbaggers of tomorrow.

So, what are they?

**RULE #1: General Undervaluation:**

All but one of our Tenbaggers were severely undervalued at the time of their respective bottoms or prior to their massive run ups. Yet, perhaps "undervaluation" is not a correct term to use here since valuations can be interpreted or misinterpreted in many different ways. As you very well know, sometimes undervalued stocks can become even more undervalued if the underlying business model does not work. Perhaps, "Oversold –or- Selling Below Potential Value" would be a much more appropriate term to use here.

- Keurig Green Mountain (GMCR): Stock was selling at a 60% discount to its IPO price just a few years prior and at the time its run up has initiated.
- Apple, Inc (AAPL): Stock was trading at the same price it was trading 20 years earlier after the Nasdaq had collapsed in 2000-2002.
- Best Buy Inc (BBY): Stock was selling at a 75% discount to its price just two years prior at the time its run up has initiated.
- Bally Technologies Inc (BYI): Stock fell so far that it was about to be delisted from the Nasdaq.
- Chipotle Mexican Grill (CMG): Stock was selling at over 60% discount to its price just 10 months prior.

In other words, all of our Tenbaggers were sitting at the bottoms of their respective trading ranges when our original investments in them should have occurred. And that is our clue number one.

**Clue #1**: Seek out and research companies whose stocks are selling at least 50% below their prior years or months values. From our work above, discounts of 60-80% from prior years tops are optimal. It is highly probable that we will find most of our future Tenbaggers there.

**RULE #2: Operational Improvements:**

Again, just because the stock is undervalued or just because it had lost 80% of its value over the last 24 months doesn't mean the stock will turn around and go higher. If anything, it is highly probable that the stock in question will remain at the bottom of its trading range for the foreseeable future. Worst, it might go on to lose another 80% before the bottom is reached. Some sort of a catalyst is needed before a position can be taken. Typically, necessary changes come from the following areas...

- Restructurings, Asset Divestitures, Mergers and Spin Offs
- New Products or Services With Huge Growth Potential
- Management Changes

In essence, the company in question must have something that would allow it to grow faster over the next few years. Without such a clear catalyst an investment in the company would not make sense as its underlying stock price would have no chance of appreciating. As was the case in our analysis above.

- Keurig Green Mountain (GMCR): Introduced a line of Keurig's coffee systems and K-Cups right before its stock price began to surge.
- Apple, Inc (AAPL): Introduced a line of extremely popular iPods before its stock price began to surge ever higher. Followed by iTunes, iPhone, iPod, etc....
- Best Buy Inc (BBY): Was working diligently on improving margins, restructuring its growth trajectory and trying out new store concepts that would outperform the competition.
- Bally Technologies Inc (BYI): Began a divestiture and restructuring process to simplify its balance sheet and to infuse capital into its otherwise dying business.
- Chipotle Mexican Grill (CMG): Was already firing on all cylinders and no change or catalyst was needed.

**Clue #2**: Some sort of a catalyst must be present. Otherwise, the underlying business warrants no investments. The company's management must be introducing new products, restructuring or doing something that has the potential to send the company's growth trajectory higher.

**RULE #3: Bet on Management:**

While we paid very little attention to company's management in our research throughout the book, it is not an accurate representation of how this issue should be approached. Company's management and its CEO in particular are incredibly important. A CEO with an excellent track record, a strong drive for success and a high ownership percentage will oftentimes work miracles for the underlying business. As was the case with Steve Jobs and Apple Inc. Likewise, a management team with no previous successful track record and/or without a stake in the company is unlikely to do anything worthwhile.

**Clue #3:** Successful management team with a clearly defined and executable plan of action. A high ownership percentage in the company by the management team is always a big plus.

**RULE #4: Use All 3 Analytical Frameworks:**

As was suggested earlier, it would be incredibly difficult to make an investment in any one of our Tenbaggers through the use of a singular analytical tool. When fundamental, technical and mathematical analysis tools are used individually, they give very few clues that the underlying stock issue is about to surge higher. However, when we combine them and they all confirm the upcoming rise, our chances of success increase dramatically.

As was the case with Chipotle Mexican Grill in late 2008. From the fundamental perspective alone the company was doing incredibly well and growing just about as fast as it could. Yet, the company's stock price kept going lower throughout 2008. Mostly due to its general overvaluation at the time and the financial crisis of 2007-2009. If we were looking at the company from the fundamental perspective alone we wouldn't be able to tell when the stock would bottom and when it would be an opportune time to go long. Yet, when we bring technical and mathematical analysis into the picture, it clears up. Giving us a number of signs that the stock price was bottoming and the time to take position was at hand.

**Clue #4:** When fundamental, technical and mathematical analyses confirm each other, the chances of the stock surging higher increase exponentially. Therefore, companies that have all three analytical frameworks agree on the direction of the underlying stock price are the companies that warrant possible investment. Assuming that all other investment requirements are satisfied.

**RULE #5: Wait For a Technical Confirmation:**

When we initiate a position in any given stock is just as important as IF we make an investment at all. A proper entry point can make all the difference between generating substantial gains almost immediately and losing money on the trade. At its worst, an improper entry point can force us to liquidate a position at a loss and at exactly the wrong time. Right before the stock begins its run up. As such, it is always important to wait for a technical confirmation before taking a position. Typically, any such confirmation will come in a form of a higher high after a certain bottom is reached or a break above/below a trend line. As a matter of fact, all of the entry and exit points in this book were timed in such a way.

**Clue #5:** Wait for a technical confirmation before taking a position in the underlying stock.

**RULE #6: Trade In and Out of Your Positions** (Particularly in a secular bear market**):**

If anything, one proposed "Truth" has been drilled into investor's psyche over the last 50 or so years. Buy stocks for the long term and hold them forever. As nice as this catch phrase might sound, it doesn't work in all circumstances. We deal with uncertain and unpredictable world on the daily basis and as a result we must have the ability to shift our opinions and positions at a moment's notice.

Further, it was shown that by trading in and out of our positions at the right times we can easily double or even quadruple our overall Tenbagger performance. Assuming a long enough time frame. All while avoiding soul crushing 50-80% declines and uncertainty associated with such fast growing stocks. In fact, trading in and out becomes the only prudent approach to investing in Tenbaggers over a long period of time. Particularly in a secular bear markets.

**Clue #6:** Don't hesitate to trade in and out of the stock when technical and mathematical analyses suggest that you should.

**RULE #7: Buy Fast Growing Companies After Market Corrections**

If we look at all of the above companies and try to identify one trait that worked 95-100% of the time, this would it. Every single one of our stocks sold off during bear market legs of 2000-2002 and 2007-

2009. Most of the time at X multiple to the market. Meaning, their declines were at times more, sometimes a lot more than the overall market. Suggesting that their eventual bounces would be more significant as well.

Further, once such market corrections were over, it was time to buy. Most of our stocks had their largest 500-2,000% run ups during bull legs of 2002-2007 and 2009-2014. Or right after bear market legs terminated at their respective bottoms. Perhaps Warren Buffett had said it the best, "Be fearful when others are greedy and greedy when others are fearful." Buy at the bottom.

**Clue #7:** This strategy is about as foolproof as it gets. By buying at the bottom of a bear cycle, you ensure good entry points and subsequent massive gains in your potential Tenbaggers.

**RULE #8: Secular Bull or Bear Markets are Not Very Relevant:**

All of the stocks above had their massive run ups during a secular bear market of 2000-2017. Proving, without a shadow of a doubt, that individual stocks can increase in value even in the hardest of times. Assuming their underlying businesses are performing well. And while it is helpful and more profitable to have a bull market at your back, it is not a requirement. There will always be many stocks that go up 10X or more in all market conditions.

With that said and as was suggested above, all investors must be on the lookout for fast developing bear market legs that tend to appear in secular bear markets. For instance, 2000-2002, 2007-2009 and 2014-2017. It is at such time that most stocks go though their corrections. Giving us an opportunity to 1. Liquidate our long positions. 2. Go short and 3. Load up on multiple Tenbaggers at give away prices when the bottom arrives.

**Clue #8:** Don't pay attention to bull or bear markets. Instead, concentrate on avoiding bear market legs in the overall secular bear markets. Then load up on your favorite Tenbagger stocks when selloffs terminate.

**RULE #9: At Least Some Diversification is Required.**

While the Tenbaggers in this book offer a high rate of return, they come with a side of extra risk associated with new product introductions, restructurings, growth, etc.... As such, it would be prudent not to bet all of your chips on one or two potential Tenbaggers. Yet, a wide diversification here is impossible since you will not be able to find many stocks that satisfy all of your Tenbagger requirements. You can go about solving this issue in one of two ways.

First, simply add potential Tenbaggers to your overall well diversified portfolio. While they will have a net positive impact, their impact might not be as great is if you were concentrating on Tenbaggers alone. Which brings us to option number two. In this case you would develop a portfolio of no more than 5-10 Tenbaggers and then concentrate all of your attention on overseeing their progress.

**Clue #9:** Do not bet all of your money on 1-2 potential Tenbaggers as such stocks are inherently more risky and unpredictable. Instead, concentrate on developing one of two diversification strategies above.

**RULE #10: Sit Out or Get Ready To Go Short When the Time Is Right**

Finally, at certain times you will find yourself in extreme overvaluation bubbles. Similar to those at 2000 and 2007 tops. It highly probable that you will not be able to find any potential Tenbaggers at general undervaluation levels in such an environment. When that happens, it would be an opportune time to get ready for a bear raid on individual stocks or the overall market. If nothing else, it would be prudent to stay out of the way.

Today's market environment, in September of 2014, presents us with a perfect illustration of that. Due to unsustainable overall valuation levels, I am unable to find a single stock issue that would satisfy all of the requirements above. That's right, not a single stock that I would invest in as a potential Tenbagger as most stocks have been driven to unsustainable valuation levels. This tells me a few things. First, the market is overvalued and is in a bubble. Second, if I have any remaining long positions I should consider liquidating them now or as soon as the market breaks down (technical bear market confirmation). Finally, I should consider going short if my investment strategy allows it.

**Clue #10:** If you are unable to find any potential Tenbaggers at undervalued levels, the overall stock market is likely to be in a bubble. Be prepared to exit your long positions and to go short at a moment's notice.

**Conclusion:** If you are to follow the steps above it is highly probable that you will not be able to find more than 5-10 Tenbagger stock issues at any one time. However, when you do find them, make it your business to learn everything you possibly can about them. From the fundamental, technical and mathematical perspectives. It will make all the difference between investing in a stock that does fairly well and a stock that goes up 10X or more within a relatively short period of time. Finally, when all of your requirements are satisfied and you are confident that the underlying stock will outperform the market by a large margin........buy as much stock as your diversification strategy allows. Then hold on for dear life.

And that's all there is to it.

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I will have a number of books coming out over the next few weeks, months and years covering a wide range of subjects. Everything from how to use your Universal Consciousness to lose weight to how to apply it in the stock market. From how to use it to access multi dimensional architecture within our universal construct to how to direct it to get rid of stress. Plus, a multitude of other fascinating topics. One thing is for sure, it is going to be a fascinating ride. I encourage you to visit my library in order to see what other books or topics might strike your fancy.

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