5 Easy Stock-Picking Secrets That Make it Ridiculously Easy to Profit
The concept of *Cabot Profit Booster* is really quite simple: We take our best stock picks and try to squeeze more profits out of them by trading options. But how do we come across those stock picks? All of them will come from Mike Cintolo’s *Cabot Top Ten Trader* advisory, a weekly accounting of the market’s 10 best growth stocks.

Mike has been running *Cabot Top Ten Trader* for years, and his long-time subscribers are quite happy with the results. Those results include hundreds—thousands, really—of winning trades, including 228 of them in 2018 alone! Big winners include 167% in Carvana (CVNA), 139% in Five Below (FIVE), 135% in Grubhub (GRUB), 130% in Twilio (TWLO), 121% in Okta (OKTA), 113% in Advanced Micro Devices (AMD)... you get the point. LOTS of big winners.

How does Mike pick so many winning stocks, week in and week out? Here are five of his best stock-picking secrets.

**Focus on the Best Stocks**

Most investors earn nothing-to-write-home-about returns for one simple reason: They invest in nothing-to-write-home-about stocks! You know what I’m talking about—companies that have sub-par growth, lots of competition, or simply a promise of something better down the road. Hey, if investing in those companies worked, we’d be all for it. But that just isn’t reality.

The fact is that the stocks that do best—what we like to call leading stocks—almost always have certain characteristics in common. They sport fast sales and earnings growth, along with the promise of better growth in the quarters to come. They offer a unique, possibly revolutionary product or service. They have big profit margins, a sign that management is capable and competition is at bay.

And, importantly, they have a stock that acts well—one that is generally outperforming the market. That tells you that big investors (mutual funds, pension funds, etc.) are picking up shares on each pullback, anticipating great things for the company as the weeks and months pass. You should work hard to focus solely on both successful companies and successful stocks—it’s the combination of the two that allows you to consistently find stocks capable of making big moves.

**Market Timing Matters**

Gone are the days of the 1990s, when every two- or three-month dip was buyable and even so-so stocks ran up with everything else. Today, after a decade with two punishing bear markets that ravaged many investors’ portfolios and retirements, you know better—market timing matters.

At Cabot, we have a successful history of timing the market’s major moves. Our system is simple: We analyze the intermediate-term and longer-term trends of the market. When the trends turn down, we...
turn defensive by selling our worst performers, cutting back on any new buying and holding cash. And when the trend turns back up, we start buying again. Like we said, simple.

The big benefit of such an approach is that you are guaranteed never to miss a major market upmove, and you’re also guaranteed never to remain heavily invested during a prolonged downmove. (We were 90% in cash by the time the September 2008 Lehman/AIG meltdown occurred.) On the flip side, there will be the occasional whipsaw—a signal that is quickly reversed—but because we only get a handful of signals each year (if that many), it’s not a big drawback.

Besides, any whipsaw is a tiny price to pay for assurance that you’re going to be in every bull market, while sitting out the vast majority of any bear markets that come along. Bottom line: Pay attention to and respect the market’s trends.

**Get to Know Charts**

Many investors believe that stock charts are not only confusing, but worthless. Others believe charts are able to forecast a stock’s or a market’s future movements. We fall somewhere in between; they are a vital piece of the investing puzzle... but only if you know how to use them.

The big benefit of charts is that they give you a view of the stock’s supply/demand situation. No matter how good you or anyone thinks a company is, the stock won’t go up unless there’s enough demand for the shares. The company, in other words, is not the stock!

Back to charts, half the battle is in making sure the stock you’re interested in is in an overall uptrend; chasing downtrending stocks is not the best way to make money. In fact, it’s usually a good way to lose money. So, getting in the habit of checking a stock’s chart to make sure it’s trending generally higher is a good idea.

But there’s much more to charts than that. The more you study them, the more you’ll discover that they can help you identify abnormal action—either abnormally good (such as a powerful breakout of a tight trading range on huge volume), or abnormally bad (such as big-volume weakness through a key support level, like the 50-day moving average).

Using charts is more art than science, and as we wrote above, charts are a key part to the investment puzzle (but not the only piece). The more you work on chart-reading skills, the better an investor you’ll be. We’re happy to help you along the way.
Hey! What’s the Big Idea?

The big winners of bull markets aren’t just random companies. Sure, there might be a few low-priced darlings that race up the charts on merger speculation or something like that. But the vast majority of big winners have big sales and earnings growth, and the reason they do is because the companies have big ideas.

By that, we mean that the company offers a potentially revolutionary product or service that is serving a huge mass market. In other words, there’s little ceiling on a firm’s potential growth—the product is changing the way we live or work, so if management executes, the sky’s the limit.

Of course, in a bull market, you’ll find lots of good stories; just remember that while most big winners have big stories, not every big story leads to a big winning stock. In other words, you shouldn’t be buying solely because the story is good. Pipe dreams aren’t allowed! You should combine a good story with good numbers—most big winners show great sales and earnings growth before they lift off—to raise your odds of success.

Concentrate on Your Best Ideas

This last one isn’t so much a stock-picking secret as a portfolio strategy secret.

Most everyone on Wall Street advises you to diversify, but the truth is that when investing in growth stocks, it’s best to do the opposite—to concentrate in relatively few positions, and then to watch them carefully.

So what is “relatively few positions”? We’ve always thought that, when fully invested, owning between five stocks (on the most aggressive end) up to 12 stocks (less aggressive) is the right mix. Maybe if you have lots of experience and time, you could go up to 15 names. But, at least for growth investing, you want to avoid having 20, 25 or 30 stocks. The reasons for that are many.

First and foremost, by its nature, growth stock investing is really about finding a handful of big winners—fewer holdings means you’ll get more bang for your buck from your winners. A second benefit comes from market timing; when the market turns down, you want to raise cash. With just a handful of stocks, selling two or three make you defensive in quick fashion. But if you own 30 stocks, selling two or three (or even four or five) won’t do much to shield you from a big drop.

Of course, having fewer stocks means your portfolio will be more volatile... not always the most pleasant thing. But if you can handle it, having fewer eggs in your basket will allow you to better focus on your best ideas, follow them more closely, and earn better returns in your portfolio.
About the Expert

Jacob Mintz is a professional options trader and editor of Cabot Options Trader, Cabot Options Trader Pro and Cabot Profit Booster.

Using his proprietary options scans, Jacob creates and manages positions in equities based on unusual option activity and risk/reward.

Jacob developed his proprietary system during his years as an options market maker on the floor of the Chicago Board of Options Exchange, where he ran several trading crowds for nearly 10 years.

After a successful career on the trading floor Jacob was tasked with setting up a trading desk at a top-tier options trading company, trading against the most sophisticated hedge funds and institutions in the world.