Using IBD SmartSelect® Ratings

Chapter 1 - IBD SmartSelect® Ratings

With more than 5,500 stocks trading on U.S. exchanges, searching for a winning investment candidate could be a daunting - and time-consuming - endeavor. Unless you have the right tools.

The IBD SmartSelect® Ratings do some of the heavy lifting for you. The unique ratings were designed to help both new and seasoned investors find the best stocks faster. The ratings measure a company's key characteristics, like earnings growth, profit margins, share price performance and other traits. They also show you how the stock compares to others in the market.

These powerful ratings can help you size up a stock at a glance:

- **Composite Rating** rolls all of the other IBD SmartSelect® Ratings mentioned below into one useful measure, making it your single most useful fundamental and technical gauge. This rating also factors in where a stock's share price stands in relation to its 52-week high. And it gives more weight to the stock’s EPS and Relative Price Strength ratings.
  - Ratings range from 1 to 99, with 99 being the best.
  - Stocks rated 80 or higher are in the top 20% of the overall market.

- **Earnings Per Share Rating** (EPS) compares a company's recent quarterly and annual earnings to those of other publicly traded firms. Specifically, it looks at the past two quarters and the past three to five years of profit growth. That makes it easier to assess a firm's short- and long-term earnings growth.
  - EPS Ratings range from 1 to 99, with 99 being the best.

- **Relative Price Strength Rating** (RS) compares a stock's price change during the past 12 months to the price moves of other stocks. It gives extra weighting to a stock's price performance during the past three months.
  - RS Ratings range from 1 to 99, with 99 being the best.

- **Sales + Profit Margin + ROE Rating** (SMR®) combines a company's recent sales growth, profit margins and return on equity, then compares them to other publicly traded companies. It's also known as the SMR® Rating.
  - SMR® Ratings range from A to E, with A being the best.

- **Accumulation/Distribution Rating** (ACC/DIS RTG®) tracks the level of buying (accumulation) and selling (distribution), based on daily price and volume changes. It's one of the best ways to spot stocks of interest to big, institutional investors.
  - Accumulation/Distribution Ratings range from A+ to E, with A+ being the best. An A Rating indicates heavy buying; an E indicates heavy selling.

- **Industry Group Relative Price Strength Rating** compares the six-month price performance for a stock's industry group with that of IBD's 197 other industry groups.
  - Runs from A to E, with A being the best.

Say you spot a stock with a 90 Earnings Per Share Rating. That tells you that it's outperformed 90% of the other stocks in the market in terms of earnings growth. The Composite and Relative Strength Rating work in a similar manner. And those combined metrics let you easily evaluate a stock's importance and standing in the market.

But don't buy a stock simply because it has high ratings. Use the SmartSelect® Ratings as a starting point. They give you an overall idea of a stock's quality. Be sure to check the earnings and sales growth history for a deeper understanding of the stock's strength.
If the ratings don't pass muster, you can move on and spend your time researching more promising investment candidates that are already proving their potential with good performance.

Chapter 2 - Where To Find It

The SmartSelect® Ratings appear in a variety of features in both IBD's print and online editions, including the daily IBD NYSE & Nasdaq Research Tables. Investors.com's Stock Checkup® shows you a stock's ratings and also lets you see how they compare to others in its industry group.

Chapter 3 - Key Points

SmartSelect® Ratings

IBD's SmartSelect® Ratings help you size up a stock at a glance. The Ratings will also help you decide which stocks deserve further investigation and which ones to pass over.

But don't buy a stock just because it's highly rated. Instead, use the Ratings to gauge whether the stock is worth closer inspection.

Here is a checklist to help you find stocks with the best potential:

- Composite Rating of 80 or higher
- Earnings Per Share Rating of 80 or higher
- Relative Price Strength Rating of 80 or higher
- Industry Group Relative Strength Rating of A or B
- Accumulation/Distribution Rating of A or B
- SMR® Rating of A or B
Researching stocks can be a long and tedious task. You have to analyze a company's earnings, sales, margins and return on equity. And you've got to make sure that you're looking at the best stocks in top-performing industry groups.

Then you have to study tons of charts and find those few that are setting up in a valid base.

You can simplify the process by using the Stock Checkup feature at Investors.com.

This comprehensive research tool lays out key information on one page, helping you to quickly find top-rated stocks.

To use this feature, go to the Investors.com home page, place your mouse over the Stock Research tab, then click on Stock Checkup in the secondary navigation.

Stock Checkup has several sections. The first tells you how your candidate stacks up with the other stocks in its group. Here you'll find the Composite Rating, which takes into account all five of IBD's SmartSelect Ratings. You'll also see how far the stock stands from its 52-week high.

Just below are four of the five ratings that make up the Composite Rating: Earnings Per Share, Relative Price Strength, SMR and Accumulation/Distribution Ratings.

Want to know which stocks have the highest Earnings or A/D Ratings? Place your mouse over the percentile bars in each category, then look at the chart on the right.

Scroll down further and you'll find a checklist coded with the colors from a traffic signal. Green means pass, yellow means neutral and red means fail.

Most of a stock's move can be attributed to the general market and its industry group performance. If you see a red dot in the general market section, that means it's not the time to be buying stocks. Make sure there's a green dot before you start buying.
Using IBD Price-Volume Charts

Chapter 1 - Using IBD Price-Volume Charts
Finding stocks with great earnings growth and sizzling sales can give you the first clues about the market's next winner. But if you stop at these fundamentals, you're not getting the whole picture.

Charts may seem complex at first, but there's a reason so many successful investors use them: Stock charts give you a ring-side seat for watching the trades of big institutional investors.

Chapter 2 - The Basics
The two main components in a chart are its **price and its volume**. The **vertical price bars** show you the stock's price range for that day (on a daily chart) or for the week (on a weekly chart). The **horizontal slash mark** shows you the stock's closing price. If you're looking at the stock's action during the current trading day, the horizontal slash mark represents its latest price.

Most successful investors use both daily and weekly charts. What's the reason for using both?

**Daily charts** show the details of a stock's action and are helpful in pinpointing buy points and sell signals. **Weekly charts** provide a useful summary and great perspective of the longer term, and can help you spot emerging trends.
Watching a stock’s price and volume action is the best way to zero in on institutional buying and selling.

Large institutional investors -- not individuals -- account for the bulk of the trading in the stock market. When they decide to buy a stock, they will quietly buy shares over several days or weeks. And that buying will often show up in volume spikes on the stock’s chart.

On the flip side, when institutions decide to sell a stock, their unwinding of their position shows up as price declines on heavier volume.

Moving Average Lines

Most IBD®, charts include moving average lines. These key benchmark lines plot a stock’s average closing price over a set period of time.

For instance, the 50-day moving average line tracks a stock’s average closing price during the past 50 trading days. Its sibling, the 200-day moving average line plots a stock’s average closing price over the past 200 trading days. Both the 50- and 200-day lines appear on daily stock charts.

In addition to the moving average lines, the charts also contain the Relative Strength line, which appears in blue. It offers an easy way to compare the stock’s price performance with the S&P 500. The number that appears in blue near the end of the Relative Strength line is the stock’s Relative Price Strength Rating.
10-week and 40-week moving average lines operate in a similar manner, tracking a stock's average closing price during the past 10 or 40 weeks. They appear on weekly price-volume charts. The 10-week line is roughly equivalent to the 50-day, while the 40-week and 200-day are roughly equal.

Chapter 4 - Key Points

Price-Volume Charts

• Price-volume stock charts let you time your buys and sells more accurately than if you simply find a stock with good earnings and high ratings and guess about when to buy.

• IBD® Charts help you spot the moves of big, institutional investors like mutual funds.

• The vertical bars in the chart plot a stock’s price range for a day or a week. The short horizontal bar marks its last price. The bars running along the bottom of the chart show the stock’s trading volume.

• Daily charts let you see the details of a stock’s action, while weekly charts provide a useful summary that can help you spot emerging trends.

• Ideally you like to see volume rise when the stock’s price rises and volume fall as the price declines.
Chapter 1 - The Basics

Before a stock can launch a big price run up, it must have a solid base pattern to build upon. It's sort of like the foundation for a house: if it's not solid, the levels above can become unstable. For stocks, base patterns serve as that foundation. They occur when a stock's price falls and consolidates over a series of weeks or months. Bases typically form after a stock has already experienced a nice increase in its share price -- also known as an uptrend -- of at least 30%. That uptrend is important, because it shows you the stock has built up a record of price growth already, and has gotten support from some big professional investors. There are several kinds of bases that winning stocks frequently form prior to a big price run-up. Let's look at some of them.

Cup-With-Handle Base

Learning to recognize that pattern on a stock chart lets you buy in before the stock begins its big run. The cup-with-handle base is one of the easiest patterns to spot — and one of the most powerful. On a stock chart it resembles a teacup as seen from its side view.

During the final stage of the base -- after the stock has climbed up the right side of the pattern -- it may pull back, etching a downward-sloping handle on its stock chart. You might wonder why a slipping price is a sign of strength.

Here's why: This last downturn serves to shake out any investors who might be prone to selling. Often they're investors who bought into the stock before it fell into its correction. They held on through its downturn and now that it's climbed back to where it was, they're ready to sell.

Once those investors are gone, the stock faces less resistance as it breaks out of its base and heads higher. In other words, investors who held, and new investors who come in, all have more confidence in the stock, and are eager to invest more money.

Chapter 2 - Characteristics of A Sound Cup-With-Handle Base
Now that you've learned to spot a cup-with-handle base, here are some traits to look for to help you find a powerful one:

The cup-with-handle pattern forms after the stock has experienced a run-up in price -- also called a prior uptrend -- of at least 30%.

**The base lasts at least seven weeks.** Start counting the first week the stock's price closes lower, after reaching a new closing high. Seven weeks gives the stock enough time to digest its previous gains, and to shake out investors who aren't inclined to hold or buy more shares.

- Though some cup-with-handles can develop over a year or longer, most take three to six months.
- Be sure to include the handle when you measure the length of the base.

The base usually corrects 15% to 35%. That's because you want to see just enough sellers exit the stock -- and 15% to 35% is a healthy decline within a base. A deeper decline decreases the stock's chance of climbing back out of the base successfully. Calculate the percentage decline in a base from the price at the peak when the pattern starts to the lowest point in the correction.

- Bases that are shallower than 15% are probably flat bases.
- Stocks that form bases that are excessively deep are more likely to fail when they try to break out of that chart pattern and head higher.

The cup portion of the cup-with-handle base should have a smooth, U-shaped pattern. Jagged formations or those with a sharp V-shape are weaker.

The handle portion of a cup-with-handle base is formed when a stock pulls back in price -- generally 10% to 15%.

- It lasts at least five trading days, during which time the stock's price should drift lower as volume dries up. Light volume in the handle means only a few sellers are taking profits. You don't want to see a major selloff at this time.
The ideal buy point is calculated by adding ten cents to the highest point in the handle.

Chapter 4 - Key Points

Base Patterns

- A base pattern occurs when a stock's price falls and consolidates over a series of weeks or months.
- Bases typically form after a prior price uptrend of at least 30%.
- The base serves as the foundation for the stock's later climb - sort of like the foundation of a house. If it's not solid, it can make any levels built above it unstable.

  - A cup-with-handle base is one of the most powerful base patterns.
  - Base shape: resembles a teacup as seen from its side view.
  - Base length: lasts at least seven weeks.
  - Base depth: usually 15% to 35% but may be deeper if it forms during a bear market.
  - Base characteristics: cup preferably has a smooth "U" shape rather than a sharp "V" shape.
  - Buy Point calculation: ten cents above the peak in the handle.

  - Handle characteristics:
    - Length: five days or more
    - Depth: generally 10% to 15%
    - Should drift downward as volume dries up.
    - Should form in base upper half
IBD 50 and Your Weekly Review do more than just alert you to stocks with CAN SLIM traits...

With timely chart analysis, they also show you which top-rated stocks are near a potential buy point right now.

That gives you time to put potential winners on your watch list.

These are not recommendations!

Never buy a stock just because it’s listed in the IBD 50 or any other IBD stock screen. Always do additional research before making any investing decisions.
What do you find in each *IBD 50 & Your Weekly Review* chart?

Quick snapshot of each stock’s true health

**Chart analysis, with alerts to potential buy points**

**IBD SmartSelect® Ratings**

**Key fundamental & performance data**

(Double-bottom pattern could offer buy point at 25.9.)
Spot potential winners using a simple Weekend Routine

1. Check *The Big Picture* to see if the market is in a confirmed uptrend.

2. Scan chart analysis for *IBD 50* and *Your Weekly Review* stocks, and circle those near a buy point.

3. Learn more about the stocks you circled on Investors.com.

4. Track the stocks to see if they break out in coming days and weeks.
Check *The Big Picture* to see if the market is in a confirmed uptrend.

→ On front page of IBD and on Investors.com

**Indexes, Leaders Gallop In Heavy Volume**

BY PAUL WHITFIELD
**INVESTOR'S BUSINESS DAILY**

Stocks rumbled higher in fast trading Friday as the Nasdaq surpassed its May high and reached its highest level since December 2000. The Nasdaq jumped 1.6%, the S&P 500 1.8% and the NYSE composite 1.4%. Small cap led as the S&P 600 surged 2.1% and the Russell 2000 2.2%.

**Current outlook:** Confirmed uptrend

**Distribution days:** 2 on S&P 500 and NYSE composite, 1 on Nasdaq

**Leaders up in volume:**
Gilead Sciences GILD
Qorvo QOR
Nu Skin NUS
SolarWinds SWI
Celgene CELG
Buffalo Wild Wings BWLD
MasterCard MA
Intuitive Surgical ISSG
Chipotle CMG
W.R. Grace GRA
Spirit AirlinesSAVE
InvenSense IVSN

**Leaders down in volume:**
Royal Gold RGLD

Two ago, the market appeared to be obsessing over Europe.
What’s changed? The market appears to be more widely where the risks are not simply in Europe.
As the legendarily bearish Loeb once said, the market is better at predicting than the news.

Unless the next five weeks of 2Q earnings bear trap, the next good news will be
New highs ahead? Friday the Nasdaq delivered 260 new highs vs. 55 new lows.
Friday marked the third straight day of triple-digit totals for new highs.
The last two times the Nasdaq did something similar was in early July, when it notched five triple-digit new highs in a row, and late April when it

**Current outlook:**
Confirmed uptrend

**Best time to buy stocks**

**Other market stages**

**MARKET PULSE**

**Wednesday’s action:**
Up in lower volume
**Current outlook:**
Uptrend under pressure

**MARKET PULSE**

**Friday’s action:**
Down in higher volume
**Current outlook:**
Market in correction

- Avoid new buys
- Cut losses short
- Be ready to lock in gains

All data for illustrative purposes only
Scan chart analysis for *IBD 50* and *Your Weekly Review* stocks, and circle those near a potential buy point.

Double-bottom pattern could offer buy point at 25.99.
3 Learn more about the stocks you circled on Investors.com.

**IBD Stock Checkup**
- Get pass or fail ratings for each stock
- See if it’s a leader within its group
- View IBD articles & videos about the company
- On Investors.com

4 Track the stocks to see if they break out in coming days and weeks.

**Make sure volume is HEAVY on a breakout**

If a stock you’re tracking breaks out, look for volume at least 40% - 50% higher than normal.

That shows conviction among big investors.

**Need help reading charts?**
- Watch the *Daily Stock Analysis & Market Wrap* videos at [www.investors.com/IBDtv](http://www.investors.com/IBDtv)
- See free *Online Courses* under Education tab on Investors.com
## Your Stock Buying Checklist

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<tr>
<td>Composite Rating 80 or higher</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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<td>EPS Rating of 80 or more</td>
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<td>✓</td>
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<td>EPS growth 25% or higher in recent quarters</td>
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<td>Accelerating earnings growth</td>
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<td>✓</td>
<td>✓</td>
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<tr>
<td>EPS growth past three years 25% or higher</td>
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<td>Sales growth 25% or higher in the most recent quarter</td>
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<td>ROE 17% or more</td>
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<td>✓</td>
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<tr>
<td>SMR® Rating A or B</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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<tbody>
<tr>
<td>Among the top-rated stocks in its industry group</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>New products, service or management</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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<td>IPO within the past eight years</td>
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<td>✓</td>
<td>✓</td>
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<th>Industry Group</th>
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<td>In the top 40-50 groups of IBD’s 197 industries</td>
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<td>✓</td>
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<td>Industry Group Relative Strength Rating of A or B</td>
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<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>In the top six of IBD’s 33 sectors</td>
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<td>✓</td>
<td>✓</td>
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<tr>
<td>Price above $15 on Nasdaq, $20 on NYSE</td>
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<td>✓</td>
<td>✓</td>
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<tr>
<td>Relative Strength Rating 80 or more</td>
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<td>Accumulation/Distribution Rating A or B</td>
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<td>✓</td>
<td>✓</td>
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<td>Increase in number of funds owning the stock</td>
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<td>✓</td>
<td>✓</td>
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<td>Average daily volume of 300,000 or more</td>
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<th>Market Smith® Premium Charts</th>
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<tbody>
<tr>
<td>Market in rally or uptrend</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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<table>
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<th>Chart Analysis</th>
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<th>IBD® Charts at Investors.com</th>
<th>Market Smith® Premium Charts</th>
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<tr>
<td>Breaking out of a sound base (cup, flat, etc.)</td>
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<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>Volume above-average on breakout</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>More up weeks than down weeks in the base</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>Within 5% of buy point</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>Add shares at pullback to 10-week moving avg. line</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>Special patterns: 3-weeks tight, etc.</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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<td>Downward sloping handle in light volume</td>
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<td>✓</td>
<td>✓</td>
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<tr>
<td>Relative Strength Line in new high ground</td>
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<td>✓</td>
<td>✓</td>
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<td>✓</td>
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<tr>
<td>First- or second-stage base</td>
<td>✓</td>
<td>✓</td>
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