

## Chapter 06: Deluxe Stock Screener 101

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Hello and welcome to Financial Audio, an information series providing listeners with detailed and tactical guidance on today's complicated financial world. My name is Patrick and I'm your host. You can find written versions of these podcasts at [FinancialAudio.com](#) and I encourage your candid feedback at the same location. Today, we'll be looking at an extremely sophisticated online stock screener so let's get started.

Similar to the last chapter, I think you're well advised to have a computer close by when you listen to this chapter. I'll be introducing another platform and this one's a lot more complicated than BigCharts, which is what I introduced last time. I also need to say again that there are undoubtedly dozens of great platforms that have similar capabilities but I truly believe this one is the most powerful; certainly the most powerful that I've ever found. If any of you have other platforms you'd like to recommend, please write me an email and I'll be sure to include them in a future chapter.

We've talked about selecting stocks a number of times already. We've discussed leading industries and leading companies. We've looked at some charts with high-volume break-outs. All that stuff is great and offers valuable guidance during the selection process. But in a way, we've jumped past the very first step and that's what we'll be addressing this chapter. Indeed, we'll be looking at a platform that can instantaneously sift through thousands of publicly traded stocks and present you with a small number of ideal selections to consider. We'll be looking at a "stock screener". In fact, we'll be looking at a DELUXE stock screener — at least that's what they call it, and I think it's a perfect label.

Start off by going to [MoneyCentral.com](#) and then click on Stock Research on the left hand margin. It'll bring you to a welcome screen with four main options in the center of the screen. But ignore those for the time being and scroll down the left hand margin again. Under the Find Stocks heading, you'll see a link for Stock Power Searches. Click on that and it will take you to a screen that has a variety of prefabricated screens broken down by fundamental and technical criteria.

Whether it's right now or later, I really hope you take an hour or so and look through these screens. They're all based on sound logic and provide terrific insights as to what other investors are looking for. By clicking one screen or another, the platform will provide you with a list of stocks that meet the criterion in that screen.

You can then click on any of the stock symbols listed and see more details about each company. It will also provide you with a small price chart on the right but it only shows the most recent day's activity. But immediately below the chart, it gives other options including 1 year and 5 years. Click on some of these options and notice how these charts compare with those on [BigCharts.com](#). Anyway, if you wanted, you could make note of the list or print it out and then view the individual charts in BigCharts later.

Now get back to the Power Searches page and look for the box on the top right inviting you to create your own custom stock screen using their Deluxe Stock Screener. This is what we're looking for and it's unbelievable. Now, you'll first have to download a small applet and activate the Active X controls to use the platform but rest assured, this is a very reputable site and you should feel comfortable installing it. Believe me; it's well worth it. Once you see the little graphic chart on the screen, you'll know you've successfully activated the controls.

Once you're in the deluxe screener, you'll see a table with three columns. The first is labeled Field Name, the second is labeled Operator and the third is labeled Value. When you click on the drop-down menu in the first column, you'll see a list of 14 headings and if you move your mouse down the list, the subheadings come up to the right. Take a look. It's amazing. They've included almost every possible data point you could imagine and you can build a custom screen using any of them you like.

Now let's take a step back first and talk about this for a second. When a stock is publicly traded, it has legal obligations to provide full financial statements and reports to the Securities and Exchange Commission. So all this information is publicly available but finding it can be a real challenge. Here's a platform that accesses a database with all the information readily available. It's an incredibly powerful tool and we'll spend the rest of this chapter and all of next chapter discussing the different variables you can use in your own custom stock screen.

There's actually a forth column as well and its labeled Field Description. You'll notice that every time you roll over one variable or another, a brief description is displayed under Field Description. This is incredibly valuable as it gives you a way of learning as you go. When I first discovered this platform, I read every single description to educate myself on the options available. I suggest you do the same thing. It was a great exercise.

Okay. The first Company Basics heading includes the industry the stock is in as well as its market capitalization, number of shares outstanding, number of employees and which exchange the stock is traded on. Now, in the last chapter, we talked about the Industry tab on BigCharts.com and how important it is to identify which industries are leading the market. Here, you can use that same data to screen for stocks only within one industry or another. Also, the market capitalization is a good variable to weed out penny stocks. Of course, some investors are ONLY interested in penny stocks and that's great. But for me, I always like to put a bottom threshold on the market capitalization to try and avoid the unpredictable volatility that's common with small issues.

The second Investment Return heading includes various measures of the company's return on its resources. Whether it's the return on assets, equity or investment, these measures shed light on the company's ability to produce results. AND, it also includes the industry average return so you can select ONLY those companies that have a return HIGHER than the average company in their industry. What a great way to select the leading company within a leading industry. It's a fundamental indicator but an effective one for sure. As an exercise, find a leading industry on BigCharts and then screen for that industry in the deluxe screener and then screen for those companies WITHIN that industry producing superior returns. It won't be a short list but you can sort the results by the return. That will immediately identify the most successful companies within the strongest industry, all within a minute or two.

The third Price Ratios heading includes a wide variety of measures comparing the company's current trading price to other variables. Of course, the most common is the price/earnings ratio but there are others as well. And for the price/earnings ratio as well as the price/sales ratio, the platform provides averages for the market in general and for the industry the company is a part of.

Now, there's a debate over which is better: a low P/E ratio or a high one. Some investors think a low P/E ratio identifies a bargain while others think a high P/E ratio shows investors are expecting faster growth from that company in the future. Remember I said in an earlier chapter that investors are always looking about 6 months into the future so a high P/E ratio may signify higher expected earnings down the road.

My feeling is that a low P/E ratio is probably low for a reason and I would stay away from the stock for that reason alone. I don't really care WHY it's low. I just see that it IS low and that reflects poor confidence from the investor community. Besides, the common label of "growth" stocks (as compared to "value" stocks) is based on P/E ratios and growth stocks are those with HIGH P/E ratios, not low ones, and that should speak for itself.

The fourth Management Efficiency heading deals with the company's management of people, inventory and receivables. All three are critically important aspects of a successful business and you are again given the option of comparing the company's track record against the industry. But these are all pretty fundamental variables and I admit I don't look at them very often. Nevertheless, there's no question you could quickly identify industry-leading stocks with variables like these.

The fifth Financial Condition heading is great for all you accountants out there. It covers the major financial ratios including the current ratio, quick ratio, interest coverage and debt-to-equity ratio. All are great measures of a company's financial strength and liquidity but they can be deceptive too. For example, growing companies tend to have poor liquidity ratios because tomorrow's sales are bigger than today's receivables — at least that's the case for traditional business models. For some growing technology companies, the gross margin is so high that liquidity isn't generally a problem but for most companies, the growth phase represents the biggest strain from a financial perspective.

The sixth Dividend heading, obviously, deals exclusively with dividends. For those of you who are interested in regular dividend payments, this could be a valuable heading for you. Personally, I have never used any of these variables in my searches but again, everyone will find their own preferences on this platform and I encourage you to try different variables and different combinations to find the criterion that works best for you.

The seventh Trading & Volume heading is by far my favorite category and includes a variety of variables I use in every single screen. For starters, you can screen for a particular beta. A stock's beta is a measure of its volatility relative to the S&P500 index. So if a stock has a beta of 2, it is twice as volatile as the S&P500, on average. If the S&P goes up by 1%, this stock would go up by 2% on average. If the S&P drops by 1%, this stock would drop by 2% on average. It's worth noting that high P/E stocks are generally high beta stocks at the same time. Most technology stocks, for example, are high beta stocks. And most large utilities are generally low beta stocks.

The Trading & Volume heading also provides the % institutional ownership. In a past chapter, we discussed the fact that a good 70% of the stock market's volume is institutional; large players like pension funds, mutual funds and other managed funds. Well, here's an opportunity to look at exactly what percentage of the company's outstanding shares are owned by such large players. And once you pull the screen, you can sort by this variable to see which stocks are most heavily owned by institutional players. Keep in mind players like these own large blocks of shares and can't unload them in a day or two. If they want to get out, they'll have to cycle out of the stock over a period of time and that works in your favor.

Two other variables under this heading involve the short interest. When you sell a stock short, you're betting it will go DOWN in value. You're betting on the downside. So it can be insightful to see how strong the short interest on a stock is before you buy it. The stronger the short interest, the more people are betting it will drop soon.

The volume indicators under this heading are absolutely pivotal. Again, remember that volume = investor interest. If the investment community is increasingly interested in a stock is growing, the volume will be growing. If the interest is dropping, the volume is dropping. And if you're looking for the stock to go up in value, you need to see increasing volume before you buy. They've got options here for the most recent 2-week volume, 1-month volume, last quarter volume and last year volume. I highly recommend you include conditions like 2-week average volume must exceed last month's average volume and maybe even last month's volume must exceed last quarter's volume. That way, you'll know the volume is growing over the recent time period.

The Trading & Volume heading also covers the 50-day moving average and the 200-day moving average. With these variables, you can require that yesterday's closing price is ABOVE one of these two moving averages (or both).

The last major set of variables under this heading pertains to Relative Strength. Relative strength is an incredibly simple but powerful indicator. Simply put, it measures how well the stock's price has performed relative to all the other stocks in the market over a given time period. In other words, if you screen for ONLY those stocks with relative strength of 95 or higher, you instantaneously narrow the field to the top 5% best performing stocks in the entire market during your chosen time period.

Now, think about it. Do you think the best performing stock in the entire market is probably going to be a good investment? Do you think the very best performing stock LAST month has a good shot of being the best performing stock NEXT month? I mean; come on! You could build an exceptional trading strategy ONLY on this one indicator, swapping out stocks as soon as they drop below the 95th percentile. You could buy only 98s and 99s and then just monitor them once each week, selling those that drop below 95! Relative strength is incredibly powerful and it plays a role in every one of my screens.

We're going to stop there. We've covered a lot of material in this chapter and again, I'm begging you to take some time to play with this thing and read the descriptions and see how powerful it really is. Create some basic screens and see what comes up. Write them down and then look at their charts on BigCharts. You'll start getting a feel for the information and become more familiar with the process. And next chapter, we'll be looking at the remaining headings and the variables within each.

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