

TOWARDS A SIMPLIFIED CAN SLIM MODEL

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AII.com ranks four stock-picking models by Buffet, Graham, Greenblatt, and O'Neil (CAN SLIM) that consistently outperform the S&P 500. Implementing these models requires complicated procedures an average investor might find challenging. Also, the website does not identify the companies comprising each portfolio or provide statistical analyses. We show how an inexperienced investor can easily implement these models. Given that AII.com ranks CAN SLIM the best, coupled with the observed popularity of this model among practitioners and student investment funds, we offer a simpler version of the model, which consistently outperforms the S&P 500.

We follow the procedure outlined on AII.com. Following AII's back testing procedure, we scan each month for the list of passing stocks and carry the portfolio for the next trading day¹. We use data from the fact set to screen for the positions and plug in the criteria for screening through a portfolio management tool from portfolio123.com, which uses point-in-time data from FactSet. We combine the rules from AII.com with what is already in portfolio123.com for implementing the four models. We go through the steps prescribed by each 'Wizard'--- Buffet, Graham, O'Neal, and Greenblatt and compare their performances.²

For benchmarking purposes, we select annual return, total return, standard deviation (for risk measurement), Sharpe ratio (for risk-adjusted returns), and alpha and beta. These are commonly used benchmarking measures (Neely et al., 2013).

¹We take the positions at the average of the next trading day's high, low and 2x close and incur no carrying cost or transaction costs.

² Investors that want to implement the screen in real time would buy the list of passing companies and rebalance monthly.

Table1. Comparing Efficiencies.

This table compares five models, four Wizard models, and the S&P 500 across several performance measures. Max Drawdown is the lowest return from peak to trough, and Sharpe Ratio is excess return divided by the standard deviation. Alpha and Beta are excess return and slope coefficients on the regression of the stock returns explained by the market return.

	Buffet	Graham	CANSLIM	GREENBLATT	S&P 500
Total Return	7,273.14%	1,683.81%	16,550.93%	1,467.08%	405.10%
Annualized Return	19.42%	12.63%	23.50%	12.03%	6.91%
Max Drawdown	-49.44%	-51.84%	-55.08%	-56.77%	-55.19%
Sharpe	0.60	0.73	0.76	0.63	0.39
Std Dev	33.19%	15.94%	30.62%	18.66%	15.41%
Beta	0.80	0.90	0.69	1.08	1.00
Alpha	16.04%	6.46%	20.99%	5.31%	0.00%

Summary

The efficient capital market theory suggests that it is not possible to consistently beat the market portfolio by picking stocks based on publicly available information. However, a few “Wizards” have consistently outperformed the market (usually, the S&P 500 Index). Warren Buffet, Benjamin Graham, Joel Greenblatt, and William O’Neil fall in this distinguished group. None of these individuals is privy to the inside information of the firms they hold in their portfolio. So, their extraordinary success must be owing to their unique stock-picking acumen.

References

AAIL.com, the Website of The American Association of Individual Investors.

Neely, C. J., Rapach, D. E., Tu, J., & Zhou, G. (2014). Forecasting the equity risk premium: the role of technical indicators. *Management Science*, 60(7), 1772-1791