

WILLIAM O'NEIL INDIA

World Test Championship and O'Neil Investing: Game of Leaders



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Cricket and Stock Market: Game of Leaders










Just think of a game of cricket. In the Indian team, you might have your favorite cricketer and a soft corner for him/her. But would you keep them in the playing XI if they are not in their best form and have performed poorly in the past year? The answer for most of you will be NO. The reason is you want to win the game and want top-performing players in the team. The same logic should be used for leading sectors and leading stocks. But as an investor in the stock market, most of you might not be applying this logic.

Most of the time, people buy stocks they like, stocks they feel good about, or stocks they feel comfortable with, like an old friend, old shoes, or an old dog. These securities are frequently sentimental, draggy slowpokes rather than leaping leaders in the overall exciting stock market.

Learning to invest in leaders from cricket is simple.

We, the cricket fans of the Indian cricket team, always support team India. When it loses, we get disappointed and try to wear the hat of a coach or an advisor in the evening. But in the next match, we support our team. For a moment, let us be neutral and have no favorite team or player. At the start of the World Test Championship (WTC), did you ever think that Bangladesh or Sri Lanka would make it to the finals? The answer is NO. Most of you might have thought that India, Australia, England, New Zealand, and South Africa will lead the table. See, you went with the leading team.

If Kohli/Pujara/Rohit hit a century, you think that they may make it big and hit a double century. Here, even after they hit a century, you hoped the same players to make it big again, and they certainly are capable of doing it. Why not apply the same logic when it comes to stocks? Why do many investors avoid all-time high stocks and go for bottom-fishing? William O'Neil said that 'what goes high, goes higher'. You had the same thought in cricket but never realized it in the stock market.

	PCT (%)	POINTS	SERIES	MATCHES		
				WON	LOST	DRAWN
 INDIA	72.2	520	6	12	4	1
 NEW ZEALAND	70.0	420	5	7	4	0
 AUSTRALIA	69.2	332	4	8	4	2
 ENGLAND	61.4	442	6	11	7	3
 PAKISTAN	43.3	286	5.5	4	5	3
 SOUTH AFRICA	37.8	204	5*	4	8	0
 WEST INDIES	30.3	200	6*	3	7	2
 SRI LANKA	27.8	200	6	2	6	4
 BANGLADESH	4.8	20	3.5	0	6	1

Source: ICC

Bottom fishing and avoiding stocks at a new high for a laggard is like selecting West Indies or Bangladesh to win WTC and picking up out-of-form players in your team

The top two or three stocks action-wise in a leading industry group can have unbelievable growth, while others in the pack may hardly stir a point or two. Contrary to conventional wisdom, buying low and selling high is not an easy way to make money in the stock market. In fact, it can be quite risky because, in many cases, you're buying damaged goods.

We would like to draw your attention to buying into new highs. Buying a stock when it is scaling new highs might seem strange and scary to many investors. About 98% of individual investors would never buy a stock that makes new highs. Buying a quality stock at a new high is buying into the emerging strength with belief that it could prove to be the beginning of the next big move.

But, do not buy every stock that makes a new high; make sure that the stock breaks out of a sound base pattern before it sails above the pivot on a higher than the average volume. In addition, investing when the stock price is way too extended, say 5–7% or higher from its pivot, is not ideal.

Traditionally, investors often believe that they are value investing when they prefer to shop stocks near their 52-week lows. The idea of buying from a discount sale in a supermarket rarely applies while buying stocks. Stocks on the new-high list tend to go higher in price, while those on the new-low list tend to go lower. Good quality products are always expensive, so are good quality stocks.

Don't be afraid to buy a stock when it is showing supreme relative strength and sitting near highs. There is no shortage of precedents that show big market winners staging multiple breakouts during multi-year runs. Don't be quick to say it is too late, especially if a compelling growth story is still intact.

The Captain and Coach want the best performing player on the team. Similarly, the top fund managers want the best companies in their portfolios.

In the stock market, everything is relative. Institutional investors aren't just looking for good stocks. They're looking for the best of the best — those with the most explosive earnings and sales growth and the strongest game-changing new products. The Indian coach and captain would want Ishant and Ashwin, top wicket-takers in WTC to lead the bowling attack in the final. It doesn't guarantee victory, but it's all about a higher chance of winning. The same goes for the market. The biggest market winners tend to be the fastest-growing leaders in a strong and rising industry.

Like how the past year's performance under different conditions and against different teams determines the strength of a player for being the part of playing XI, Relative Strength, A/D Rating, and Group Rank help us to pick up stocks in momentum

Have you ever noticed how the price performance of a good stock moves in tandem with the market? Often stocks that drive the market are "Leaders" and tend to show superior price performance. This can be traced in the Relative Strength (RS) line of a stock's chart. The Relative Strength we are looking at here is not to be confused with another popular technical analysis tool, the Relative Strength Index (RSI), which is used to measure momentum.

The RS of a stock measures its relative price performance over the last 12 months with respect to the rest of the stocks in the market. An RS Rating is also provided for a stock based on a percentile system. A stock with an RS Rating of 96 indicates that it outperforms 96% of the stocks in the market with respect to price, or it is a stock that is in the top 4% (100-96%) in terms of price performance. The higher the rating, the better is the price performance. Check our blue-dot list ([https://marketsmithindia.com/mstool/blueDot.jsp#/\) to get a list of stocks with the best Relative Strength.](https://marketsmithindia.com/mstool/blueDot.jsp#/)

Professional investors wield a huge amount of influence over a stock's price. Thus, it's essential that you buy better stocks that professionals are buying and that you sell or avoid the ones they may be selling heavily. A quick way to keep track of the results of professional trading is the Accumulation/Distribution Rating, which is based on daily price and volume changes. It tells you if your stock is under accumulation (professional buying) or distribution (professional selling). Stocks are rated on an A to E scale, with A being the best.

The majority of leading stocks are usually in leading industries. MarketSmith India's studies show that roughly half of a stock's movement is driven by the strength of its respective group. We divide stocks into 197 industry groups. We then rank them on six-month price performance, with the #1 group being the best performer. Concentrate your research on stocks in the top 40 groups. Or groups whose ranks are improving.

Groups are like teams of WTC and Individual player performance can be related to stocks of that group. It's crucial to go with the top industry group (best performing team). In that, go for top-performing stock (best bowler and batsman).



source:ICC

Performance of leading bowlers in the squad during 2019–21

Players	Team	Span	Match	Inns	Overs	Mdns	Wkts	BBI	BBM	Ave	Econ
R Ashwin	IND	2019-2021	13	24	524.4	95	67	7/145	9/207	20.88	2.66
TG Southee	NZ	2019-2021	10	20	390.3	107	51	5/32	9/110	20.66	2.69
K Jamieson	NZ	2019-2021	6	12	200.2	70	36	6/48	11/117	13.27	2.38
I Sharma	IND	2019-2021	11	20	218	55	36	5/22	9/78	17.36	2.86
M Shami	IND	2019-2021	10	18	239.3	56	36	5/35	7/58	19.77	2.97
TA Boult	NZ	2019-2021	9	18	334.2	74	34	4/28	6/117	29.29	2.97
N Wagner	NZ	2019-2021	7	14	282.3	62	32	4/66	7/133	22.5	2.54
U Yadav	IND	2019-2021	7	14	160.2	27	29	5/53	8/82	18.55	3.35
R Jadeja	IND	2019-2021	10	19	276.1	66	28	4/62	6/211	28.67	2.9

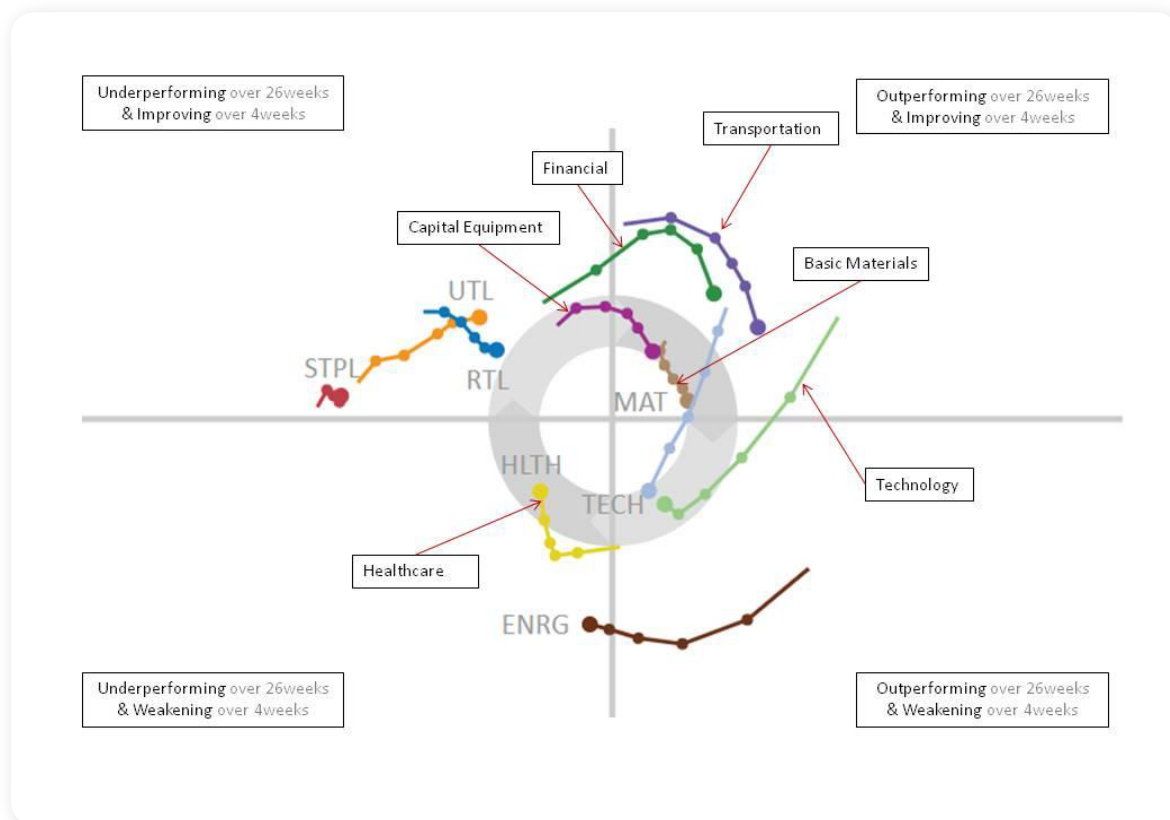
Source: espnricinfo

Performance of leading batsmen in the squad during 2019–21

Players	Team	Span	Match	Inns	Runs	HS	Ave	BF	SR	100	50
A Rahane	IND	2019-2021	17	28	1095	115	43.8	2317	47.25	3	6
R Sharma	IND	2019-2021	11	17	1030	212	64.37	1597	64.49	4	2
V Kohli	IND	2019-2021	14	22	877	254*	43.85	1563	56.11	2	5
K Williamson	NZ	2019-2021	9	14	817	251	58.35	1432	57.05	3	1
T Latham	NZ	2019-2021	11	18	680	154	40	1456	46.7	1	5
R Pant	IND	2019-2021	11	18	662	101	41.37	957	69.17	1	4
H Nicholls	NZ	2019-2021	10	15	585	174	41.78	1168	50.05	2	1
R Taylor	NZ	2019-2021	11	17	469	86	31.26	948	48.73	1	3
H Vihari	IND	2019-2021	8	14	457	111	38.08	1008	45.33	1	3

Source: espncricinfo

Sector Rotation Graph



Source: Panaray

This is the current sectoral chart from Panaray (www.panaray.com), which encompasses various sectors' performance and plots them on a rotational chart. According to the chart, Financial, Capital Equipment, Transportation, and Basic Materials sectors are outperforming and improving.

Group Ranks

(Min market cap of group > Rs 5,000 crore)

Industry Group Name	Number Of Stocks	Rank (Current)	Rank (3 Month Ago)
Computer-Hardware/Perip IN	12	9	49
Utility-Gas Distribution IN	10	10	9
Mining-Metal Ores IN	27	12	15
Steel-Producers IN	181	13	34
Elec-Misc Products IN	26	15	33
Bldg-Wood Prds IN	22	17	13
Medical-Systems/Equip IN	9	18	23
Leisure-Travel Booking IN	7	21	28
Food-Packaged IN	77	22	104
Computer-Networking IN	18	24	52

Source: MSI

Check our Group Rank list (<https://marketsmithindia.com/mstool/industryGroupList.jsp#/>) to get a list of top performing groups.

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