MercenaryTrader

Special Report:
Building Wealth with B-52 Stocks

BUILDING WEALTH WITH B-52 STOCKS

Table of Contents

BUILDING WEALTH WITH B-52 STOCKS

How do you make truly BIG money – life-changing money, fortune-building money – in the stock market? When it comes to doing this, there are investors and traders who walk a higher path. And it's not just about talent or stock-picking skills. Other factors matter too, as we'll discuss in this report.

There are at least three ways to interpret "big" – percentage gain, position size, and dollar volume.

We'll start with a quick definition of terms. When talking about "big" profits, there are at least three ways to interpret what "big" means. All three apply to the discussion that follows.

> **There is "big" in terms of percentage gain.** This is a reference to the ten-bagger, or even the hundred-bagger, in terms of accumulating gains on a single holding. It's possible to generate 1,000 percent returns, 10,000 percent returns, or even 100,000 percent returns (if you add to the position over many years) on the biggest winners.
>
> **There is "big" in terms of position size.** In Warren Buffett's 1965 letter to shareholders – the best of all his letters in our view – Buffett explains how and why he would be willing to put 40% of the partnership's capital into a single stock. That's a big enough position to make most money managers faint – and some traders and investors are willing to take larger positions still (when warranted by opportunity and conditions).
>
> **And there is "big" in terms of dollar volume.** This is about the amount of capital, in real dollar terms, being put to work. The returns on a thousand-dollar position are not the same as the returns on a hundred-thousand-dollar position… with potential orders of magnitude rising at a million dollars, a hundred million dollars, a billion dollars, and so on. The bigger the size, the bigger the challenge – and the greater the potential for massive dollar-volume gains.

It's exceptionally hard to generate large returns on large amounts of capital.

And this presents a special kind of problem: **It's exceptionally hard to generate large returns on large amounts of capital.**

> *Large percentage returns on a small amount of capital* – not much of a challenge IF you're willing take big risks. Penny stocks, aggressive options trades, shorting volatility, even a big run at blackjack or craps in a casino – there are many fast and loose ways to generate large-percentage returns with small amounts.
>
> *Large returns on a LARGE amount of capital* – now you have to deal with downside risk and capacity constraints and the responsibility of stewardship. You can't take crazy gambles with huge amounts of money (unless you're crazy), and the vast majority of short-term strategies are either too unsafe (risk of sudden blow-up) or too capacity-constrained to move the needle with substantial sums.

If you want to build life-changing wealth in markets – or if you want to manage substantial amounts of money, whether your own or someone else's – then sooner or later you run into this problem.

It's significantly harder to generate large returns on large amounts of capital, in a reasonably safe manner, than it is do anything else. And this makes sense, because "large returns on large amounts of capital" is what makes the most money.

If you crack this nut, you gain the means of turning a small fortune into a large one – or possibly seeding a fortune in the first place.

If you successfully crack this nut, you potentially gain the ability to turn a small fortune into a larger one, or to first seed a small fortune by successfully managing the money of others, with the ability to keep compounding that fortune no matter how big it gets.

The Power of the B-52 Stock

Think of trading and investing vehicles like airplanes. The size of the airplane, and the heft of the engine, determine the size of the payload the airplane can deliver.

From that perspective, many short-term trading strategies are like a Cessna 172. They can't carry a lot of payload (in terms of dollar volume), and they can't travel very far.

The opposite of a Cessna, in both payload and travel distance terms, is the B-52 Stratofortress (aka B-52 Bomber).

In operation since the 1950s, the B-52 can carry 70,000 pounds of weapons payload and fly nearly 9,000 miles without refueling. The B-52 has been in active service with the US Air Force since 1955, and is expected to stay in service through the 2040s.

B-52s are not small. They are the opposite of light and nimble. Indeed, an affectionate nickname for the B-52 is BUFF, which stands for "Big Ugly Fat F—er."

But this is why the B-52 is such a powerful delivery mechanism, with its ability to carry massive cargoes over incredibly long distances.

Given the above, we define a B-52 stock like this:

A B-52 stock can carry a heavy capital payload, for sizable gains, over an extended time period.

> ***B-52 STOCK:*** *An attractive and liquid stock idea that can carry a heavy "payload" of capital investment, with the potential for large gains over an extended time period (e.g. 50%-300% gains over six to thirty-six months).*

There are lots of ways to make money in markets. But B-52 stocks are one of the single best ways to make "BIG" profits in every sense of the term, from percentage gain to position size to heavy dollar volume.

The size and scope of profits in a short-term trading strategy, especially when adjusted for risk and capacity constraints, will rarely ever match the potential in a true B-52 opportunity… just as a dinky Cessna 172 airplane, with a flight range of six hundred miles or so, can never match the capabilities of a beast that flies across oceans.

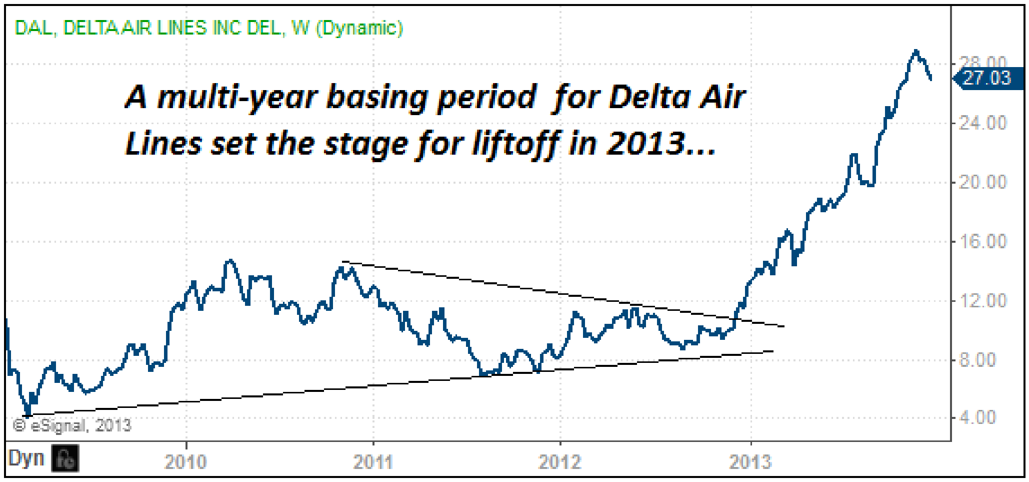
So how do you identify a B-52 opportunity? As with many aspects of trading and investing, there has to be a "coming together" of opportunity and conditions. And, like the actual B-52 Bomber, you need plenty of runway for the position to take off.

The Runway Transition Period

An aircraft as large and powerful as the B-52, with its eight individual turbojet engines (four on each wing), needs a lot of room on the ground before building up the speed and power to fly.

The B-52 stock needs an extended "runway" basing period to build towards the transition to lift-off.

Similarly, B-52 stocks – or candidates for such – have an extended runway basing period in which speed and power are building for lift-off.



On a long-term chart, this "runway period" for a B-52 stock may look like an extended run of sideways action, or back and forth price action within a multi-year defined range.

This period of runway can last for multiple quarters… or a year or more… or even multiple years, depending on how much "runway" is needed for the underlying drivers and fundamental conditions to change.

During this runway period, key things are happening behind the scenes.

During this period of runway transition, key things are happening behind the scenes.

Even as the stock appears to only be going sideways – or staying within a messy but defined range – internal acceleration factors are building, not unlike a B-52 bomber gradually picking up speed.

There are various potential "lift-off factors" at work in a B-52 runway period, to be explained shortly in this report.

To give a preview of the kind of B-52 lift-off factors to look for, some of them are:

- A New Product Line in Development
- A New Technology or Efficiency
- A Shift in Commodity Prices
- An Expansion of Profit Margins
- Resolution of Industry Problems
- Industry Consolidation
- Consumer Retail Expansion
- Adjacent Market Targeting
- Cyclical Economy Trends
- Market Disruption

A company or sometimes an entire industry can be out of favor for some reason. Whatever the cause, the stock was left for dead, or otherwise settled into a period of doldrums for an extended period of time.

During the runway transition period, some form of qualitative change is taking place.

But meanwhile, during that period of time, *qualitative change* was underway. For whatever reason, the inherent profitable potential in the specific company, or the entire industry surrounding it, was improving for the better.

It is this *ongoing qualitative change*, from an initial state of boredom or disfavor or lessened profitability in the eyes of investors, that drives the runway concept.

As investors begin to catch on, and recognize that something is new or different in respect to the stock – and a better outlook than before – the stock begins to take off.

Lift-Off Comes First, Metrics Come Second

A big reason many traders and investors miss the B-52 take-off period is as follows:

Lift-off tends to happen before the official metrics truly turn.

> Lift-off typically happens **before the official metrics truly turn**, or quickly after the first sign of real change in the numbers.

Take, for example, the habit of running fundamental screens to identify attractive investment candidates.

Many investors will look for things like multiple quarters of rising earnings growth, increasing revenue and net income, expanding profit margins, and so on.

This is all well and good, except for one thing:

By the time the screen gives you a thumbs up, it may be too late.

> B-52 stocks are hard to identify via traditional metrics-based fundamental screening processes because, **by the time the fundamentals screen gives you a thumbs up,** it may be too late.

This happens repeatedly because sharp investors, traders and money managers intuitively understand the "runway" concept that enables lift-off (even if they call it something else).

As these savvy market players sense the presence of a transition – a qualitative change in the outlook for the stock (or the industry) – their gradual step-up of anticipatory buying is what creates the lift-off and puts the B-52 stock in flight.

By the time the fundamental screens catch up and show multiple quarters of improved earnings or what have you, the B-52 may have already left ground level and reached 20,000 feet (half its eventual altitude).

Again, B-52 stocks represent robust investment opportunities that have potential for excellent returns over a period of multiple months (if not years).

These stocks also feature reasonable if not ample liquidity, allowing the trader or investor to put large amounts of capital to work (as opposed to thinly traded stocks that are harder to invest heavily in, or strategies too constrained or risky for large amounts).

Flight Times May Vary

What is the window of opportunity for holding on to a B-52 stock?

In some cases, a truly excellent B-52 opportunity can take years to play out. With a strong enough and long enough "runway" period, the eventual lift-off can lead to hundreds or even thousands of percent gains reaped over many years.

(And as mentioned earlier, the total percentage gain can be magnified – sometimes by a lot – via repeated add-ons to the initial base position.)

Yet other B-52 opportunities can crystallize much faster – e.g. within a window of three to six months or so.

Some opportunities can run for years, others reaching fruition in just a few months.

This happens, in part, when the large crowd of institutional investors, quants, and other screen-based investors discover a B-52 opportunity after lift-off has occurred, and then provide the final big wave of buying power.

These players often come in late – with the screens not alerting them until 20,000 feet – and then commit enough capital to make the final rise to 40,000 feet come about relatively quickly.

A Classic B-52 Example

Home Depot offers a classic example of how the transition from runway to takeoff can take place.

Shares of Home Depot entered a basing period in 2005, ahead of a housing market peak and subsequent financial crisis. A supply glut of spec homes and restricted access to credit created an extremely challenging environment for builders. High levels of unemployment and widespread consumer pessimism also hurt the home renovation market.

With new home construction and existing home renovations slumping (two of Home Depot's primary sources of customers), revenue and earnings declined.

In fact, Home Depot reported a 17.3% decline in year-over-year revenue for the fourth quarter of 2008, along with a loss of three cents per share.

The extremely challenging housing environment, along with other fallout factors from the global financial crisis, led to an extended basing period for Home Depot's stock, as shares lost nearly half of their value and failed to make a new high for more than five years.

But behind the scenes, qualitative changes were taking place, ultimately leading to a lift-off for this B-52 candidate. Plummeting home prices and high foreclosure rates initially killed Home Depot's profits. But the rebound set up a major profit opportunity.

The housing bust and financial crisis killed Home Depot's profits, but also created the conditions for rebound.

With banks sitting on inflated inventories of foreclosed homes, and a large portion of consumers unable to qualify for new mortgages, private equity investors saw an opportunity to put capital to work. The private equity giants thus plowed ahead with home purchases, in a US housing market they perceived as bottomed out.

The publicly trade private equity firm Blackstone Group (BX) made headlines by aggressively purchasing distressed homes, with a plan to refurbish these homes as rental properties.

At one point, Blackstone alone was spending $100 million per week on houses, representing a large source of demand for the troubled housing market.

Private equity investors plowing into the housing market revived Home Depot's fortunes.

Blackstone (and other PE investors following Blackstone's lead) deployed an army of contractors to renovate these newly-purchased homes, leading to strong building materials demand for Home Depot.

In fact, Home Depot wound up creating an entire department to focus exclusively on servicing the needs of private equity real estate groups.

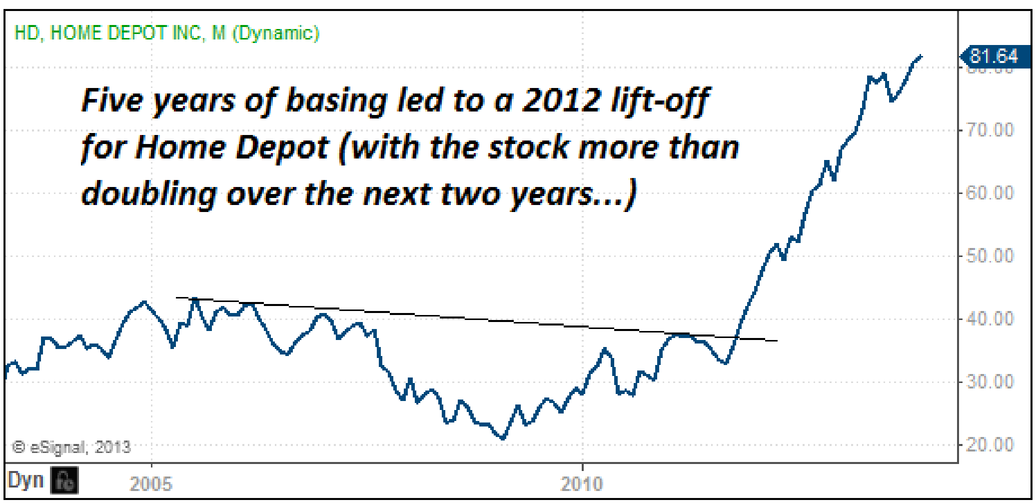
Strong demand from these private equity investors, along with a gradual economic recovery at the top end of the economy, led to growing expectations of a Home Depot resurgence as the volume of home renovations picked up. This caused Home Depot's share price to gain flight.

Within two years, Home Depot's stock (symbol HD) had more than doubled in price, with no material pullback along the way.

It is interesting to note that Home Depot did not report a quarter of double-digit percentage revenue growth until January of 2013 – a full year after the liftoff occurred.

Waiting for a clear signal from revenue growth would have meant missing half the lift-off gains.

So investors who waited for a clear revenue growth signal to buy shares would have missed half the potential gains from when the stock initially left the runway.



To capture maximum profits from B-52 opportunities, it is necessary to identify the general window of lift-off early on, as opposed to waiting for traditional fundamental screens to give an A+ rating across various metrics and ratios.

It's necessary to know the qualitative change factors, or take-off factors, that can lead to flight.

Being ahead of the curve in this manner, or ahead of take-off rather, means being aware of the underlying drivers for a B-52 stock. This means having a sense of the qualitative change factors that produce a new outlook, and can thus lead to flight.

Ten Lift-Off Factors for B-52 Stocks

Properly identifying the lift-off factors in play, with enough advance warning to act on them in timely respect to price signals, is the tricky part of this equation.

There is no free lunch in markets (and what appears to be free is often a trap).

But of course, there has to be a talent and hard work aspect to identifying B-52 stocks, because there is no free lunch in markets (and that which appears to be free is often a trap). As *Reminiscences* put it:

> *You have to use your brains and vision to do this; otherwise my advice would be as idiotic as to tell you to buy cheap and sell dear.*

With that said, it can be a great deal of help to know the common factors in advance, and thus what to look for.

So without further ado, here are the basic descriptions of ten lift-off factors, as demonstrated with a classic example of each.

LIFT-OFF FACTOR #1: A NEW PRODUCT LINE IN DEVELOPMENT

The successful launch of a new concept or product can spark life in a dormant revenue stream.

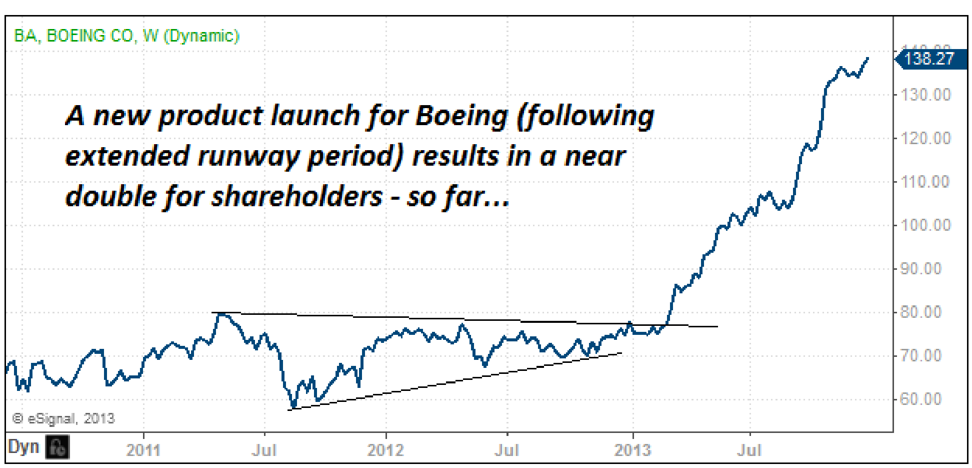
The successful launch of a new concept or product line can spark life into an otherwise dormant revenue stream. Depending on the particular business, key new products can result in orders from existing customers along with an entire crop of new purchasers representing an untapped market.

Of course there's nothing like a surge in revenue to capture the attention of investors and drive the stock price sharply higher. Boeing Co (BA) experienced a B-52 liftoff early in 2013, ahead of the August rollout of its first 787-9 Dreamliner.

Investors had plenty of notice when it came to Boeing's new product line. The 787 was actually first unveiled in July of 2007, but multiple design and service issues kept the new model from driving the stock price higher.

Boeing spent years correcting the issues, ultimately coming up with the 787-9 which carried more passengers, used 20% less fuel, and produced 20% less emissions when compared to similar sized planes.

Investors bid the stock higher in anticipation of this new revision - causing the stock to double from the low end of its runway range, and resulting in a 78% gain in 2013 alone.



To capture the majority of this liftoff, investors needed to first anticipate the potential acceleration in revenue based on enthusiasm for the new product line, and then pull the trigger on the stock as the price action indicated that the lift-off was occurring.

Investors who waited for the new product to actually be delivered (in August) missed the first half of the rally. But those who anticipated the potential shift, and used the price action as a key indicator, were able to get in near the beginning of a major move.

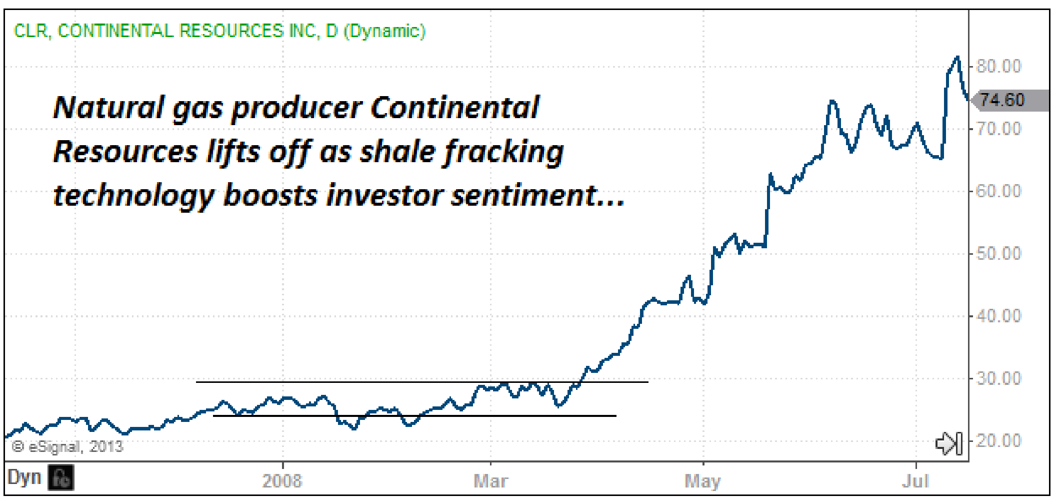
LIFT-OFF FACTOR #2: A NEW TECHNOLOGY OR EFFICIENCY

A structural shift can clear a stock (or an entire industry) for take-off.

A structural shift in the way a company (or an industry) operates can clear a stock (or an entire industry) for take-off. Not only can this shift in technology affect the underlying fundamentals, the change can also have a significant effect on investor sentiment (driving stocks to premium prices as buyers indiscriminately bid up the shares).

In 2008, US natural gas producers began using "fracking" technology to unlock gas trapped in shale formations. The new technology resulted in a significant increase in gas production, with corresponding revenue increases for the affected companies.

Investors eventually realized that this new technology would allow for more efficient production, and thus potentially larger profit margins for natural gas companies. Natural gas producer Continental Resources (CLR) broke out of its runway zone, ramping more than 170% over a four month period.



It is interesting to note that as shale fracking technology became widely used, a glut of natural gas sent spot prices spiraling, temporarily stalling the expected profit gains for natural gas producers.

Continental Resources gave up its initial gains, only to perform a "touch & go" with a short runway period and another liftoff.

As the company continued to make use of the new technology (developing reserves and increasing production), this classic B-52 stock opportunity then climbed more than 500% over a five year period!

LIFT-OFF FACTOR #3: A SHIFT IN COMMODITY PRICES

For many industries, commodity supply-and-demand factors can have a major impact.

For many industries, commodity supply-and-demand issues can have a major impact on profitability, investor sentiment, and ultimately the company's stock price.

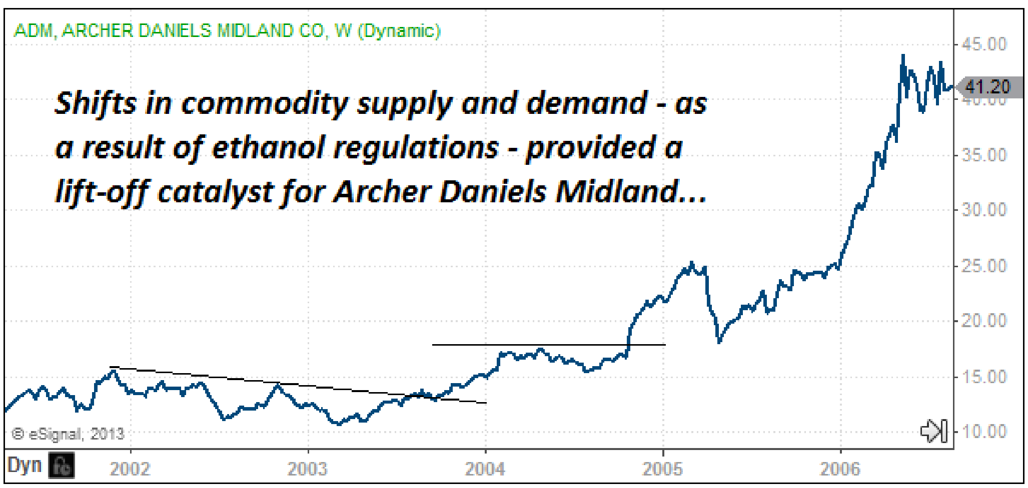
Agriculture stocks experienced a macro-driven lift-off period which began in earnest prior to the 2005 Renewable Fuel Standard (RFS), which was introduced as part of the federal government's Energy Policy Act.

This standard required that 3% of gasoline be comprised of ethanol, a requirement which essentially doubled in 2007.

This requirement caused a macro shift in demand for corn in particular. As a result of the 2005 standard, 14 percent of the US corn crop was used to produce ethanol. That percentage steadily rose to 38% of the US corn crop by 2011.

Shares of Archer Daniels Midland (ADM) – an agricultural commodities company – benefited directly from the increased demand for corn.

The stock broke out of a long runway period years ahead of the mandate as investors, knowledgeable about the legislation's prospects, began to anticipate a change. The net result was a 250% gain over a three-year period.



LIFT-OFF FACTOR #4: AN EXPANSION OF PROFIT MARGINS

Any time a company can materially reduce expenses or boost reveue, profit margins have the potential to expand.

Any time a company is able to materially reduce expenses (operational, inventory, or other costs) or boost revenue relative to the corresponding input costs, profit margins have the potential to expand.

Extended periods of margin expansion, either from a prior period of reduced profits or new highs in profit growth, can drive extremely bullish, investor sentiment, leading to both a boost in earnings per share and a multiple expansion in the price-to-earnings ratio of the stock.

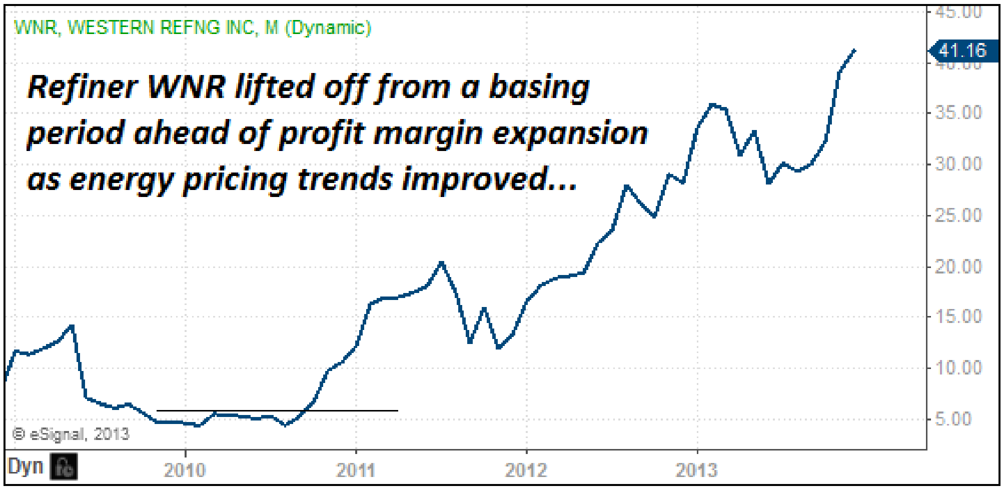
An example of this came in 2010 for US refiner Western Refining (WNR). For refining companies, higher prices for crude oil represent higher costs, as the companies must purchase crude as an input, to then refine into fuels such as gasoline and diesel.

Higher fuel prices, on the other hand, help to boost revenues and profit margins, as refiners can sell their output (refined products) at higher prices relative to their cost.

Oil prices were rising in late 2010 and early 2011 as a result of Middle East tensions and supply disruptions. But at the same time, gasoline and diesel prices were rising at an even faster clip, leading to higher profit margins for refiners.

Shares of WNR broke out of a basing period as investors anticipated a further shift in profit margins due to fuel trends. In March of 2011, WNR reported earnings which included a 107% year-over-year increase in gross refining margins.

The stock ultimately tacked on a near seven-fold increase as profit margins remained robust. There were multi-month retracements along the way, but these ultimately provided opportunities to add to or re-enter positions.



LIFT-OFF FACTOR #5: RESOLUTION OF INDUSTRY PROBLEMS

Industry challenges can lead to extended runway periods as investors turn away.

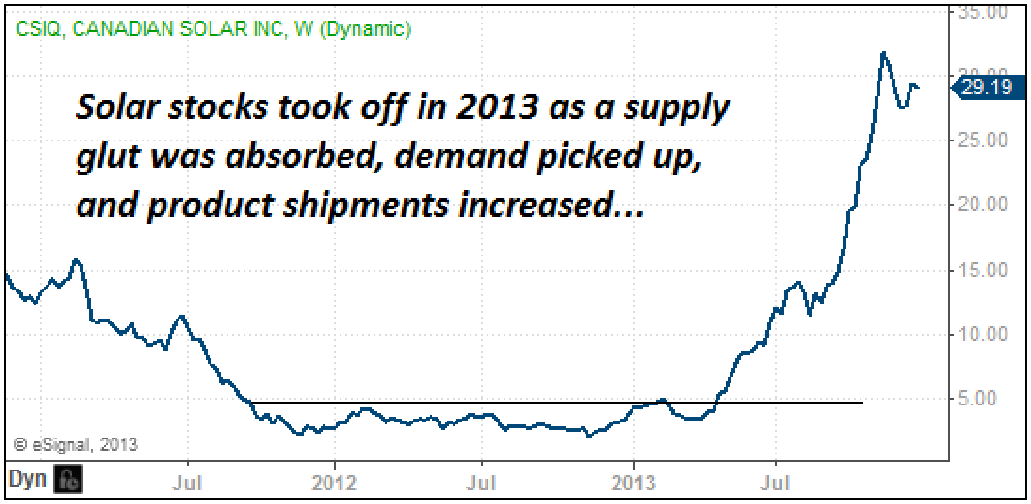
Industry-specific challenges can lead to extended runway periods, as investors turn away from problematic industries and look for more favorable areas to put capital.

Sometimes these issues can be so severe as to cause multiple companies to go out of business, or to get bought out or undergo forced mergers with competitors. The end result can be that the survivors are leaner and stronger as a result of the challenges. Still, the winnowing period can be brutal.

Solar panel manufacturers faced an incredibly difficult period from 2008 through 2012, as excess supply hit the market, causing a "supply glut," and heavy supply outpacing demand drove prices and profits lower. As a group, solar stocks lost more than 95 of their value, and many of Wall Street's favorite solar stocks were forced out of business.

Stock prices found support in late 2012, treading water as the supply glut was worked off and new demand picked up the slack. A few months into 2013, the group began trading higher following reports of increasing Asian demand.

With supply levels now constrained (after a fair number of players went under), solar companies began discussing credible plans for newly increased manufacturing capacity – a strong indication that the supply glut had been mostly absorbed.



The industry liftoff gave investors the opportunity to book triple-digit percentage gains in a matter of months (and we caught the move in the SIR).

Since the supply glut resolution applied to an entire industry, there was plenty of capacity for investors to move capital into this B-52 idea across multiple names.

LIFT-OFF FACTOR #6: INDUSTRY CONSOLIDATION

Industry consolidation can fuel optimism around strengthened survivors and takeover targets.

A series of mergers and acquisitions that consolidates strength in a fragmented industry, or improves operational efficiency through increased economies of scale, can introduce a lift-off period for both the surviving industry players and the smaller players seen as attractive takeover targets.

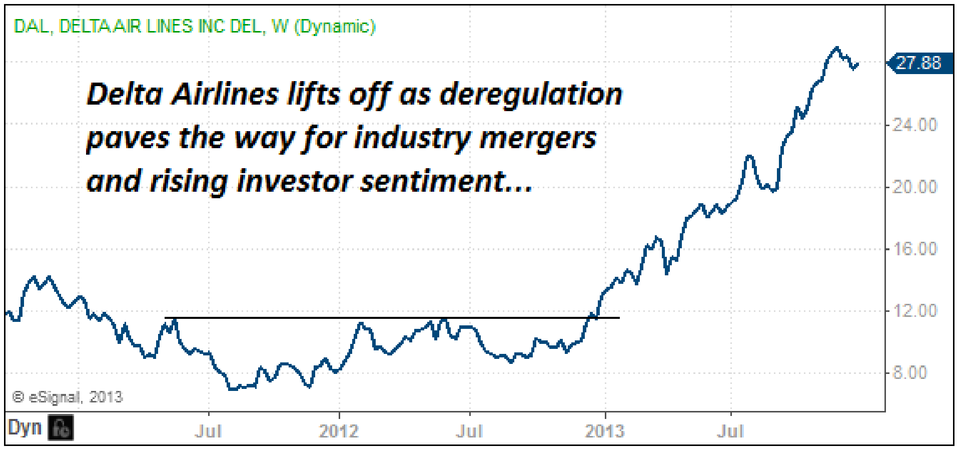
Sometimes a single high-profile merger can ignite speculation in an industry, as investors anticipate additional transactions in the pipeline. The threat of increased competition sometimes means that, if a strong competitor gets stronger, others in the same industry have to follow suit.

The airline industry experienced a sustained rally in 2013, as relaxed regulations allowed carriers to merge and realize significant synergies and cost savings.

Historically the Department of Justice (DOJ) had been focused on competition, keeping airlines segmented in an attempt to foster competition and keep prices down.

But in 2010 the DOJ relaxed its stance, allowing the merger of United and Continental Airlines. The merger had a positive impact on the industry, leading to improved earnings and rising investor sentiment after a long period of transition. Hedge fund manager David Tepper was particularly vocal about the opportunity for this industry, booking significant profits as airline stocks rallied.

Delta Airlines (DAL) played the role of a B-52 stock in 2013, featuring a rally of roughly 150% over a 12-month period (see chart next page). The stock had an extended runway period followed by a lift-off, as investors warmed to the historically tough industry.



LIFT-OFF FACTOR #7: CONSUMER RETAIL EXPANSION

Some of the best B-52 opportunities have been retail stocks expanding territory and opening new stores.

Some of the best B-52 opportunities have come from retail stocks that are expanding their territory and opening new stores. A retail company (whether an apparel concept, a particular restaurant chain, or another product line) that resonates well with customers can have strong potential for "cookie cutter" growth expansion.

The idea is that, if a concept works well in a particular region or area of the country, it is likely to work in other areas and regions too. Retail companies that have proven success in a niche market and are ready to expand to a national or international presence can thus provide investors with excellent returns.

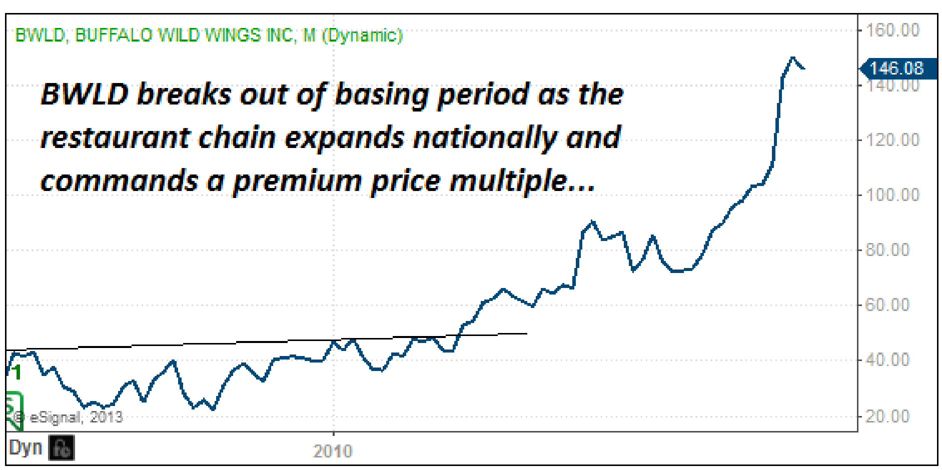
Not only can these companies benefit from the added revenue of new markets, they can also see profit margins increase due to stronger purchasing power, logistical and operational synergies, greater brand recognition, and so on.

Catching a B-52 retail concept in the early stages of growth can be a very lucrative opportunity, leading to years of stock price expansion.

In the ideal scenario, both earnings per share estimates and the price to earnings multiple expand simultaneously.

In the ideal scenario, earnings per share estimates rise steadily as a result of footprint expansion and business synergies. And the price to earnings multiple expands too, as investors buy into the story and extrapolate further gains.

Buffalo Wild Wings (BWLD) is an example of a concept gone wild (sorry, couldn't resist).



LIFT-OFF FACTOR #8: ADJACENT MARKET TARGETING

Companies that establish success in a particular industry or market segment have the potential to apply this same strength and expertise to similar or adjacent markets.

Sometimes a particular product can be modestly adjusted to reach a new customer demographic or market segment.

Sometimes a particular product offering can have additional uses, or can be modestly adjusted to reach a new customer demographic or a new market segment. The beauty with this is that existing infrastructure, human resources, and product expertise can be leveraged into a new market – boosting profits from existing resources.

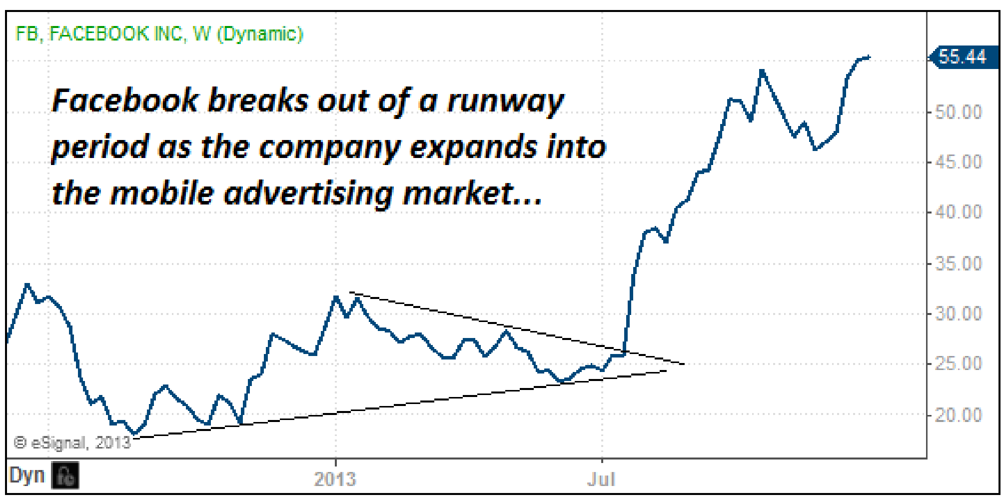
This type of expansion can resonate with investors, as the company unlock profit opportunities that were not previously baked into earnings expectations.

As it becomes clear that the new product line will boost profits and expand the company's reach, investor sentiment naturally improves.

Shares of Facebook (FB) vaulted higher as the company shifted its marketing direction to better capture revenue from mobile users.

Heading into 2013, the company generated the majority of revenue from desktop ads, even while the company's user base was shifting to mobile.

As Facebook adjusted its strategy from heavily desktop oriented to a focus on mobile, which represented an adjacent revenue stream (serving ads to mobile devices), investors took heed of strong execution and new success in Facebook's mobile strategy. Over a short period, the stock broke out of a runway base and then doubled in price.



LIFT-OFF FACTOR #9: CYCLICAL ECONOMIC TRENDS

As a nation's economy shifts from contraction to expansion or vice versa, various individual industries can benefit.

As a nation's economy shifts from contraction to expansion or vice versa, individual industries can directly benefit from the change in dynamics versus what came prior.

These changes can drive not only an expansion of business (such as volume for shipping companies or new units for homebuilders), but also an improvement in pricing dynamics leading to wider profit margins.

This is partly a result of the boom / bust cycle that naturally occurs.

During a boom (or rising market period), companies typically increase capacity in order to profit from strong economic demand for their product or service.

During the resulting bust (declining market period), industries deal with overcapacity and supply gluts, along with a waning appetite for their product or service as conditions change. This results in less favorable pricing dynamics, as companies are forced to sell their products or services at whatever price they can get to sustain revenues.

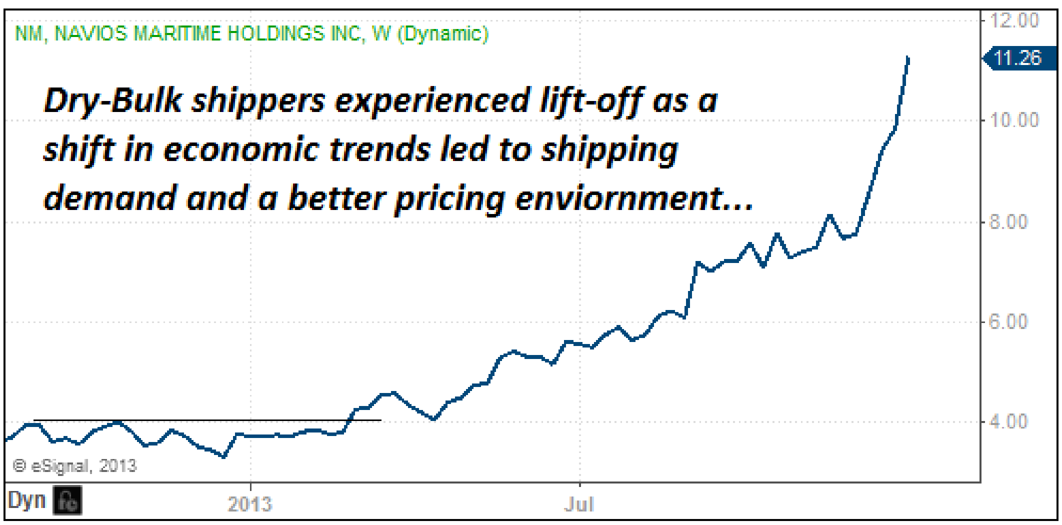
In the fullness of time, conditions revert and the cycle starts anew.

In the fullness of time capacity gets cut or flatlines, demand rebounds or mean reversion otherwise applies, and the boom / bust cycle starts anew.

The dry bulk shipping industry falls under the cyclical industry category, and experienced a dramatic bust environment in the wake of the 2008-2009 global recession. The industry was particularly hurt by declining day rates as a result of excess shipping capacity. Many dry bulk shipping stocks lost the vast majority of their market values, with multiple players going out of business.

In 2013 shipping stocks began to rebound, as Chinese demand for base metals increased and shipping day rates responded accordingly. Navios Maritime (NM) is one such shipping stock that had fallen to a fraction of its former price.

As shipping demand expanded and the pricing environment improved, investors moved capital back into the area, bidding shipping stocks sharply higher.



One key is using price action for a guide as to when to pull the trigger.

For major economic trends, it is not uncommon to have multiple years of expansion or contraction, leading to powerful advances and declines. One key is identifying the potential for shifting trends, using price action as a guide for when to pull the trigger.

LIFT-OFF FACTOR #10: MARKET DISRUPTION

There are times when a new product or technology is so superior to what currently exists, the introduction of it turn an established market space upside down.

Apple Corp (AAPL) is perhaps the greatest example in history of this concept, as the company disrupted two key markets with products that had never been seen before.

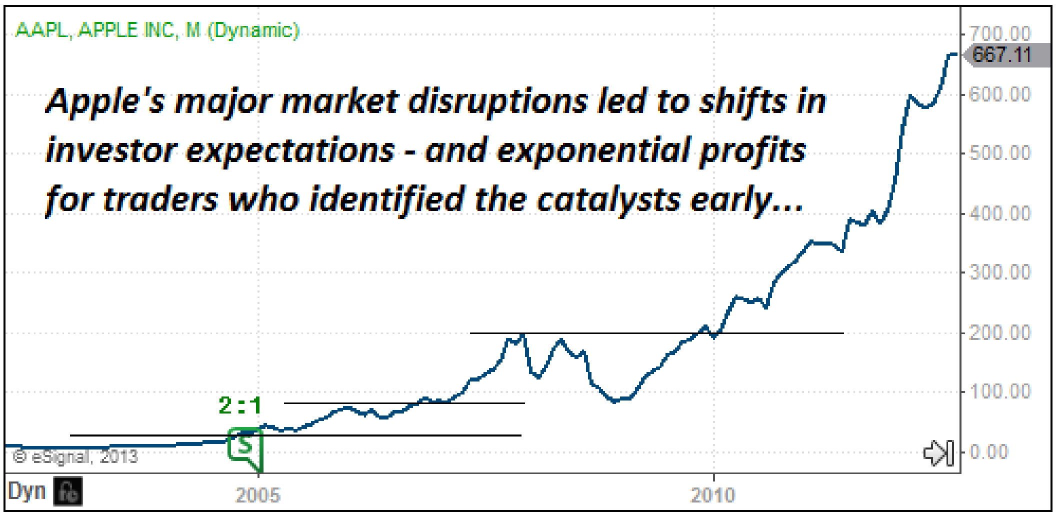
First Apple introduced – then continually improved – the iPhone, which revolutionized the mobile phone market. At the time Apple introduced the iPhone, cell phones were simply used to make phone calls. There was no existing market for “smartphones.”

Similarly, the launch of the iPad led to a disruption in the personal computing market. While the iPad didn’t replace the personal computer, it changed how consumers interacted with technology and drove a new market for personal computing devices.

And prior to the iPhone and iPad, Apple had disrupted the traditional market space for music devices (like Sony Walkmans and portable CD players) with the iPod, which started Apple’s true rise to greatness.

By identifying catalysts that can disrupt an entire market, it becomes possible to anticipate surges of enthusiasm.

By identifying product and technology catalysts that can disrupt an entire market, or otherwise turn a whole market space upside down, it becomes possible to anticipate a surge of enthusiasm from optimistic investors. This can power extraordinary trends.



TIMING THE ENTRY

If you can learn to book big profits with B-52 stocks, your odds of long-term success – and of building real wealth in markets – will be dramatically enhanced.

The B-52 strategy can dovetail well with short- and medium-term trading efforts.

Also note that B-52 stocks – or rather, making the B-52 strategy a part of your overall market arsenal – can overall enhance short- and medium-term trading efforts, by providing a logical place to allocate longer-term capital and larger pools of savings.

(The best traders have the ability to extract opportunity from multiple time frames, which in turn compounds their long-term returns.)

Once you understand the “runway” concept – and the need to identify lift-off factors that come into play before the metrics fully materialize and the quant screeners hop on the trend – the next matters to tend to are timing the entry, building the position, and knowing when to take profits. We will talk about these considerations now.

First, timing the entry. When do you get involved with a B-52 candidate? What goes into the decision to start accumulating a position?

We can think about timing in terms of four factors:

- Price monitoring
- Catalyst monitoring
- Industry conditions
- Macro conditions

Let's briefly discuss each.

TIMING FACTOR #1: PRICE MONITORING

With B-52 stocks the anticipated holding period may vary, but a general rule of thumb is three to thirty-six months. Those are, roughly speaking, the inside and outside extremes of what you want to look for (with the occasional rare exception).

The chart of record for a B-52 will generally be weekly, not daily.

This means that the chart of record for a B-52 opportunity will generally be WEEKLY, not daily. The risk of paying too much attention to daily price action is that you may get shaken out on meaningless fluctuations.

It is natural for stocks to "breathe" in and out, even in the midst of a clear and sustained uptrend. The weekly chart helps capture this dynamic.

There is an old Wall Street saying that "bull markets roll, bear markets spike." This also applies to general price action in B-52 stocks.

Because this is a long-side strategy – shorts are approached differently – there should be open-mindedness in respect to buying new highs and trend breakouts as the B-52 stock "rolls" higher.

Many typical problems with buying breakouts are already addressed in the B-52 approach.

Note, too, that the typical problems with buying breakouts are already addressed by the B-52 approach. The risk of buying a "false" breakout increases if one does not know the quality of underlying fundamentals for the stock; the risk of a false breakout also increases if one is purchasing the stock too late in the life-cycle of the trend.

But with B-52 stocks, the "runway" factor helps mitigate both of these concerns. By definition, when deploying a B-52 strategy we will seek to understand the "lift-off factor" at work, and thus have a basing or consolidation period to work with.

To monitor for price signals, be aware of the weekly trend and the key price thresholds that need to be breached to represent a shift towards weekly breakout. Simple trend following overlays can apply here, as well as Darvas-style horizontal box breakouts.

The key point is, price is a powerful signal when confirmed by the innate potential of runway-style qualitative change factors.

If a B-52 stock is breaking out to a key level on the weekly chart for the first time in X months, quarters, or even years, that speaks to a critical mass of buying pressure building up for the stock.

That is why price is the first thing we watch and a key aspect of what we pay attention to. Price is not magical in and of itself, and is not a shortcut, but acts as an indicator for what informed insiders and money managers are doing.

TIMING FACTOR #2: CATALYST MONITORING

By definition a B-52 opportunity is defined as being more than just price-based. It is enabled by an understanding of the lift-off factors that underscore the runway period.

Just because a stock has a long flat basing period on a chart, does not make it an attractive B-52 candidate.

In other words, just because a stock has a great basing period on a long-term chart, or has been flat / dead money for quite some time, does not mean it is necessarily an attractive B-52 candidate. You also need to have a handle on the qualitative change… what the potential transition factors are, and how compelling the change-case is.

This in turn leads to catalyst awareness. When you know the “lift-off factor” in play for your B-52 candidate, you know what to look for in terms of positive signs that the catalyst – the thing that creates lift-off as it gets anticipated – is taking effect.

This is where the monitoring of fundamentals and news events comes into play. If the catalyst is a new product or adjacent market expansion, for example, there will be press releases indicating customer uptake, metrics for how products in the market segment are doing, comments from the CEO or CFO, and so on.

Catalyst monitoring is a multi-step process but does not have to be complicated.

Catalyst monitoring is a multi-step process, but does not have to be complicated. It consists of identifying the lift-off factor in play, monitoring news and data flow for the stock in question, and then noting *early* positive signs of a catalyst coming to fruition.

A repeat word of caution here: When it comes to evidence of catalytic change, there is a balance between acting too early and too late. If you buy aggressively at the first hint of change, you may be in too early or prematurely.

If you wait too long, however, there is the risk of having the B-52 gain substantial altitude without you. This is another reason why price level monitoring and catalyst monitoring are for more powerful in conjunction than they are apart.

TIMING FACTOR #3: INDUSTRY CONDITIONS

Institutional capital will often flow into, or out of, entire sectors and industries based on broad assessment of that industry.

When a B-52 candidate is identified, timing considerations will expand to cover industry conditions for the entire group. Institutional capital will often flow into, or out of, entire sectors and industries based on broad assessments of what is happening in that industry. This means it always makes sense to be aware of general industry conditions, even if there is only one name from the group in focus.

Being aware of industry conditions is, again, nothing new. Jesse Livermore talked extensively about the idea in *Reminiscences* – and other old hands of the market have also covered it. As the old saying goes, a rising tide lifts all boats; the reverse is also generally true.

For example: If the housing recovery has created an air of optimism for homebuilders and home improvement stocks, then the entire sector may benefit, increasing the odds of success for an accumulation campaign in a home improvement B-52. If an upturn in China’s economic data has created a sense of optimism regarding, emerging markets, coupled with an uptick to 12-month highs in the Baltic Dry Index, this tide could lift shipping stocks on general basis. And so on…

The reverse is also true, on the bearish side: If a B-52 candidate has to fight against the tide of negative industry conditions, it will be harder to achieve lift-off (if not impossible).

Consider, for example, a natural gas stock in the midst of asset restructuring and management turnaround, yet dealing with rising pessimism as to natural gas prices and general industry trends. This is, overall, probably a case in which one waits for industry conditions to show signs of a positive turn.

With each layer, the ability to "time" an entry grows more precise and powerful.

With each layer, the ability to "time" an entry grows more precise and powerful: Price action is the first layer; catalyst monitoring the second; industry conditions the third.

Once again, tapping into fundamentals and news flow, and having a means to consistently monitor and interpret various events through a price lens, is essential here.

TIMING FACTOR #4: MACRO CONDITIONS

The final timing consideration in selecting B-52 candidates is macro conditions. At bull and bear market extremes, the rising or falling tide of the market can be a major help – or an impossible-to-overcome hindrance.

It is crucial to be aware of broad macro conditions, and to be sensitive as to whether the macro overlay is a headwind or a tailwind for various B-52 positions.

Some B-52 candidates are so strong they can rise powerfully almost regardless of what the broad market does – but names like these are more the exception than the rule.

Macro conditions for equity investing can also swing between pendulum-style extremes in respect to average valuations for equities on the whole, and broad-based investor sentiment towards the market on the whole.

Both of the macro pendulum extremes can present tricky issues.

Both sides of the pendulum for macro condition extremes present a tricky set of issues.

On the bullish side of the macro pendulum extreme, it is possible for valuations to be so broadly overvalued, and complacency so high in comparison to risk levels, that almost no long-side ideas are attractive.

(Keeping in mind here that, as part of our B-52 basic definition, "attractive" means potentially suitable for deploying a large amount of capital, rather than just a "quick pop" or "get-in-and-get-out" type long position.)

On the bearish side of the macro pendulum extreme, meanwhile, it is possible for investors to be so frightened, pessimistic and demoralized (or all three) that the market's ability to recognize value is impaired.

The good news about a macro conditions pendulum extreme – regardless of what it is – is that given enough time, the pendulum always swings. If it doesn't then markets are broken, which would speak to much bigger problems.

Fortunately, a routine assessment of macro conditions is a large part of what we do in the *Strategic Intelligence Report* – so you won't be lacking for information and insight on this aspect of things.

POSITION-BUILDING FACTORS

Building a position over weeks, months or years is an art and science unto itself.

Building a position – over a period of weeks, months or even years – is an art and science unto itself, worthy of much deeper treatment in other places.

Broadly speaking, though, when thinking about building a position in a B-52 stock, we can consider three general factors:

- Conviction
- Leverage / Staying Power
- Institutional Gamesmanship

POSITION-BUILDING FACTOR #1: CONVICTION

There is a huge amount of material out there on the benefits of “diversification.” There is also a reason concentrated value investors refer to this concept as “di-worsification.”

If you feel a strong urge to diversify, you may want to buy an index fund.

If your investment ideas lack conviction to such a degree that you want dozens of them to balance out the risk of being wrong, you might as well go with an index fund.

The reason to diversify across a large number of holdings, or to mimic a passive index, is to minimize the risk of underperforming the market. Unfortunately, the harder one tries to avoid underperforming the market, the more one guarantees they won’t outperform it either.

There are certain times when significant size is in order – and those are times when the trader or investor has a compelling overlay of deep personal conviction.

Warren Buffett is a great example of this.

When Buffett spotted a huge opportunity in American Express following the salad oil scandal in the 1960s, he did not take a “modest” position. He put 25% of all his assets under management (a gigantic commitment for a money manager) into a single stock!

Similarly, when Buffett saw opportunities in the Washington Post in the 1970s and Coca-Cola following the crash of 1987, he did not take “modest” positions. He took *extremely large* positions, based on deep conviction born of having done the homework.

Your conviction in a B-52 opportunity will be a function of how well you have researched the opportunity, how strong you perceive the opportunity to be, and how much evidence-based faith you have in your own judgment (based on quality of analysis and quality of past results).

The key thing is working hard to develop conviction via awareness of lift-off factors and doing homework.

The key thing here is working hard to develop conviction by 1) deeply researching the “lift-off” factors and 2) really “doing the homework” in clarifying the situation.

It’s important to note that conviction born of research does more than increase the probability of being right (though that is a factor). It also increases what one might call mental capital reserves – the psychological staying power and intestinal fortitude to build a big position and then stick with it.

POSITION BUILDING FACTOR #2: EXPOSURE LEVELS AND STAYING POWER

Exposure levels are a two-edged sword. Too large is bad, but so is too small.

Exposure levels – which represent the size of your position, or the level of impact your portfolio will feel from a position – are a two-edged sword.

> **If the exposure is too large,** there is the potential for risk of ruin, or a sizable position loss that is detrimental to one's "mental capital" and psychological state, or an impairment of the ability to take other attractive positions.
>
> **If the exposure is too small,** however, the failure to book sufficient profits can hurt long-term returns. While this damage is invisible as a result of size not taken, it may be that overall portfolio returns suffer due to a lack of sizable winners. A habit of sizing winners too small increases the odds of death by a thousand cuts, via no offset to the accumulation of small grinding losses that can be routine over the course of a market cycle.

In the 1960s, Warren Buffett explained why he is willing to take very large positions.

In the following excerpt from his 1965 letter, Warren Buffett explains why he is willing to take extremely large positions:

> We are obviously following a policy regarding diversification which differs markedly from that of practically all public investment operations. Frankly there is nothing I would like better than to have 50 different investment opportunities, all of which have a mathematical expectation (this term reflects the range of all possible relative performances, including negative ones, adjusted for the probability of each – no yawning, please) of achieving performance surpassing the Dow by, say, fifteen percentage points per annum. If the fifty individual expectations were not intercorrelated (what happens to one is associated with the other) I could put 2% of our capital into each one and sit back with a very high degree of certainty that our overall results would be very close to such a fifteen percentage point advantage.
>
> It doesn't work that way.
>
> We have to work extremely hard to find just a very few attractive investment situations. Such a situation by definition is one where my expectation (defined as above) of performance is at least ten percentage points per annum superior to the Dow. Among the few we do find, the expectations vary substantially. The question always is, "How much do I put in number one (ranked by expectation of relative performance) and how much do I put in number eight?" This depends to a great degree on the wideness of the spread between the mathematical expectation of number one versus number eight. It also depends upon the probability that number one could turn in a really poor relative performance…
>
> …There is one thing of which I can assure you. If good performance of the fund is even a minor objective, any portfolio encompassing one hundred stocks (whether the manager is handling one thousand dollars or one billion dollars) is not being operated logically. The addition of the one-hundredth sock simply can't reduce the potential variance in portfolio performance sufficiently to compensate for the negative effect its inclusion has on the overall portfolio expectation.

This is an area where many traders and investors fall short by making one of two mistakes. An error on the conservative side means not taking a big enough position and thus wasting time and effort.

If you fail to maximize truly excellent opportunities, then time and effort are for naught. There is enough hard work and general back-and-forth in markets in the first place that, if you don't swing hard at the home run pitches when they come along, you will not see the return on investment necessary to make it all worthwhile.

Conversely, an error on the aggressive side means taking on more exposure than your stomach or your trading account can stand.

A position can be too big in at least one of three ways.

A position can be too big in at least one of three ways.

> A position can be too big in the sense of stressing you out or keeping you awake at night when fluctuations mean it is going against you.
>
> A position can be too big in that, even if you can emotionally "take the heat," your account is damaged badly by a drawdown or margin call.
>
> Or a position can be too big in that hidden risk factors, like the degree of correlation between positions or the likelihood of an outlier loss, are too high.

This need to find balance – between too big and too small – further highlights why justifiable conviction is so important: Ideally you want the genuine evidence-based conviction to build a meaningful position, coupled with a buffer of psychological staying power so that you don't get shaken out by normal fluctuations.

There are multiple questions investors should generally ask themselves but don't.

This is not rocket science, but it does require meaningful contemplation and forethought. Many investors fail to ask themselves questions like:

> *How much size should I take on here? How will I react if this position goes against me? How much 'heat" could I stand in the event of a drawdown? What percentage decline would I be willing to accept, and should I be willing to accept, assuming the basic elements of the lift-off thesis and the weekly price pattern have not deteriorated?*

POSITION BUILDING FACTOR #3: INSTITUTIONAL GAMESMANSHIP

Another factor to be aware of in building a B-52 position is institutional gamesmanship.

Fundamental investors tend to err by not paying attention to price; traders can tend to pay too much.

This goes back to two different types of errors investors and traders make. As a general rule of thumb, fundamental investors tend to err by not paying attention to price action; traders, in contrast, can err by paying too much attention to it.

Price is the prime signaling mechanism because all activity, all market opinion and analysis, is reflected in the price footprint. If institutionals and insiders, with vast sums of capital to deploy, are accumulating or distributing shares, sooner or later it will show up in the price. This is why it never makes sense to ignore a meaningful violation of key price levels, such as, for example, an important breakdown on a weekly chart.

With that said, non-meaningful violations of price action – often on the daily chart – are a common side effect of institutional gamesmanship. Consider the following scenario:

- Institutions are accumulating stock XYZ in a range between 45 and 50.
- This accumulation is being done quietly, based on fundamental assessments.
- The stock breaks out to the 52 level. Traders buy the breakout.
- Institutions sell the breakout, knowing this will cause the price to fall.
- The breakout "fails" and the stock retreats to 46 (below the breakout level).
- The institutions happily buy even more!
- The "real" breakout occurs later on… after a lot of traders were washed out.

Scenarios like the above are a regular occurrence in markets.

Institutions often like to play mind games with price in their quest for lower purchase costs.

Breakout fakeouts, "complex pullbacks," and other features of daily price action seemingly designed to confuse and dishearten technical based traders are often deliberately employed strategies of large institutionals trading off fundamentals.

The institutional managers who trade off deep fundamentals, and have a long-term time horizon, are more than happy to mess with the heads of the guys trading off pure technicals and a short-term time horizon. Be aware of this!

So how do you adjust for institutional gamesmanship? By doing things like:

- Being aware of gamesmanship in the first place
- Widening your timeframe (as appropriate with B-52s anyway)
- Doing "homework" to develop conviction
- Accumulating positions piece-by-piece
- Being aware of false breakout potential
- Not putting risk points in obviously gameable places

POSITION BUILDING FACTOR #4: PORTFOLIO COMPOSITION

Awareness of exposure levels across the entire portfolio are critical.

Just as you have to monitor leverage and staying power from an emotional perspective and a financial exposure perspective, you need to be aware of exposure levels across your entire portfolio.

Let us say, for example, an investor takes "reasonable" exposure levels in ten different stocks with a high degree of correlation. If a sufficiently large dislocating market event happens, this can really be like having one giant position ten times as large!

So you have to have a sense not just of exposure levels within any B-52 candidate, but a good working feel for exposure levels across your entire portfolio. This is important in terms of "stress testing" your portfolio for various scenarios, so that you are never too caught out by surprise.

You want to be mentally prepared for the ugly outcomes, even if they don't happen.

By definition, if markets "surprise" you badly in terms of an outcome or a result, you have probably done something wrong. You want to be mentally prepared for the ugly outcomes, even if they don't happen, so you avoid getting blindsided in case they do.

Let us take Buffett as a case in point again.

When Buffett put 25% of his assets under management into Amex in the 1960's, was he aware of the potential short-term hit he might take as a result of fluctuations? Surely he was. But his stomach lining was also prepared – and he avoided excess leverage that might have proved fatal if wrong.

Portfolio composition and leverage awareness go hand in hand.

Note, too, that portfolio composition and leverage awareness go hand in hand. A lot of the money managers that blew up in 2008 (including multiple famous value investors) had ridiculous amounts of exposure relative to worst case scenarios.

Guys like Cioffi and Tannin at Bear Stearns, among others, were so levered up in terms of exposure, it was like a motorcycle traveling at 180 miles per hour on the highway – even a small pothole or a Pepsi can in the road was enough to cause a fatality.

That kind of instant-death exposure to modest negative excursions is insanely foolish. When investing in B-52 stocks, you want to take meaningful positions – to make the light worth the candle – but you never want to take on so much correlated exposure that your portfolio's survival is at stake if something goes bad.

Furthermore, smart investors and traders are aware of broad exposure factors in respect to other market participants' portfolios.

Portfolio contagion can trigger asset sell-offs that have nothing to do with bottom-up fundamentals.

This is important because of an effect called "portfolio contagion:" If hedge funds levered up in one area take a big portfolio hit, they may have to sell down assets across the full spectrum of their portfolios to reduce risk. This can create selling pressure in the assets YOU are holding, completely independent of the bottom up fundamentals!

WHEN TO TAKE PROFITS

The final question to address is when to take profits in a winning B-52 stock. You've seen the "lift-off"… enjoyed the rise to 40,000 feet… and are now wondering when to ring the cash register. Again we can break the "when to take profits" question into a couple key factors:

- Price warning
- Catalyst completion
- Valuation fullness
- Saturated levels

Knowing when to take profits is seen as one of the hardest problems in all of investing and trading. But in our view this sentiment is more based on illusion than reality.

Knowing when to take profits is like doing well in high school math class: The key is homework.

To make a strange analogy, knowing when to take profits in a position is like doing well in high school math class. In both cases the key behavior for success is the same: Sitting down to do the necessary homework!

High school math class can feel hard because the equations are strange and stubborn and mysterious at first. But a great many students who remember high school math this way forget why they were mystified… because they shrugged off the homework.

Doing high school math homework, going through the equations and exercises, makes the mystery go away. There is a similar dynamic in following the internals of a position, to get a sense of when to scale back (partial cash-out) and when to cash out entirely.

PROFIT-TAKING FACTOR #1: PRICE WARNING

This is the big one. Everything goes back to price.

You don't want to be fooled by small fluctuations in price. Markets need to breathe.

You don't want to be fooled by small fluctuations in price driven by institutional gamesmanship. Markets need to breathe in and out. Winning investment positions need to breathe too.

Sometimes a stock can course-correct back to its 50 day or 100 day moving average with no change in fundamentals or the overall positive assessment. Sometimes too the retracement is a psychological test, which makes the bulls stronger by passing it.

But with that said, when a powerful price level breaks one should take heed, and should perhaps consider taking partial profits if not full profits.

Longer-term charts are key for monitoring profitable B-52 positions.

Longer term charts are key for effectively monitoring profitable B-52 positions. This, again, goes back to striking a balance.

On the one hand, you want to avoid being "faked out" by too-small fluctuations born of gamesmanship and normal back-and-forth. On the other hand, you want to be aware of price-telegraphed changes in trend, general trajectory and the behavior of a stock.

The easiest way to monitor price for profit-taking on a B-52 position is by setting thresholds at long-term chart levels and past pivot points identified on a weekly timeframe, and then checking regularly to ensure these are not broken.

Even if price levels are not broken, a new period of price congestion can be a sign of caution.

Then too, even if price levels are not broken, a new period of sideways congestion – after the rise has been booked and the catalyst has manifested itself – can also be a warning that it's time to lighten up on the position and tighten risk points, if not exit entirely. Extended rangebound congestion periods after profitable trend run has occurred are an invitation for partial if not full profit-taking.

PROFIT-TAKING FACTOR #2: CATALYST COMPLETION

Remember how the B-52 concept works: It involves identifying companies with "lift-off factors" at work over extended transition periods. This means catalyst awareness at two key points: Awareness going in (when the catalyst is coming to fruition) and awareness going out (after the catalyst is complete).

This, in turn, goes back to a general monitoring of industry fundamentals, press releases, and broad metrics. For example:

> If a new product line is driving the B-52 thesis, at what point has the new product successfully conquered or possibly even saturated the relevant marketplace?
>
> If cyclical economic trends are driving the thesis, at what point has the catalyst mostly played itself out in terms of supply/demand shifts or other cyclical drivers being priced in?
>
> If a management turnaround, strategy change or asset restructuring is expected to change sentiment, outlook and profit potential, at what

point are the gains the shift broadly recognized and more or less reflected in the price?

Have a sense of the criterion for lift-off completion as well as initiation.

And so on…. Basic idea here being, have a sense of the lift-off catalyst criterion for completion as well as initiation. Have a sense of markers and metrics for when the story is over, not just for when it begins. Further noting, once again, that factors like catalyst completion work hand-in-hand with observation of price action, and not in a vacuum.

PROFIT-TAKING FACTOR #3: VALUATION FULLNESS

By definition, a B-52 stock in the "runway" phase will be undervalued, or only at partial valuation, relative to *potential* valuation once the lift-off factor has been fully realized.

Not only that, but the power of investor sentiment change means that B-52 stocks can often transition from undervalued to OVER-valued by the time the valuation peaks.

When emotion gets evolved, whether to the upside or the downside, you often get an "overshoot," further influenced by factors like price inertia, mechanical buying (based on value screens or quant factors), and so on.

So valuation is another thing to take heed of, and appropriate valuation metrics may vary from one situation to another.

The metrics that matter will be related to the relevant catalyst and lift-off factor.

For one B-52 candidate, the rate of year-on-year earnings growth may be the metric to watch. For another it might be revenue growth or estimated earnings per share. The metrics that matter will be related to the catalyst and the lift-off factor.

If the valuation catalyst for investor optimism is something other than a traditional balance sheet number – like "eyeballs" for social media stocks, or penetration of teen demographics for a trendy clothing retailer – then those are the numbers you want to watch. The key idea is, get a sense for how the market is valuing a B-52… and what the market conception of "fullness" relates to. It could be the stretch case for balance sheet metrics… or a fullness of saturation or expansion… and so on.

PROFIT-TAKING FACTOR #4: SATURATION LEVELS

The final profit-taking factor to be aware of is "saturation levels" in terms of general investor awareness and trend buy-in.

This goes back to an old concept we call "the Page Sixteen Factor." The page sixteen factor can be summarized like this:

You make money from the ideas on page sixteen as they move forward, not the ideas already on page one.

> *You don't make money from trends that show up on the front page of the newspaper. You make money from trends buried in the small print on page sixteen, as they gradually make their way towards page one.*

Remember a key identifying factor with B-52 stocks: Lift-off tends to begin before the balance sheet metrics make their definitive turn, or at a relatively early sign of turning, as savvy investors and traders anticipate the coming uptrend.

As the B-52 gains altitude… going from 10,000 feet to 20K, 30K, and finally to 40,000 feet… it also gains general awareness and recognition in the public investing eye.

By the time an idea reaches the saturation point of widespread acknowledgement, it may well have tapped all available enthusiasm resources – thus making it a candidate to run out of gas.

The saturation concept works hand-in-hand with price action rather than independent of it.

Once again, though, the saturation concept works hand-in-hand with observation of price action rather than independent of it. The danger sign is a confluence of warning factors, e.g. signs of misfire on the price side and signs of saturation simultaneously.

A Multi-Faceted Advantage

To sum up, finding and deploying capital in B-52 stocks – in large amounts – is one of the most powerful capabilities in one's trading and investing arsenal.

There is a significant amount of overlap with traditional investing approaches in this process – but also certain factors (like the incorporation of price and macro factors) that are not at all common in the traditional (price and macro blind) investing world.

It takes skill, discipline and patience to identify high quality B-52 candidates – but the rewards can be well worth it.

It takes skill, discipline and patience to identify high quality B-52 candidates – but the rewards can be well worth it. The challege comes in part because B-52 candidates don't come along regularly, because they don't just pop up on screens, because identifying the lift-off factors takes digging and mental model awareness, and in part because a runway period is required, which means requiring a qualitative change catalyst.

(Just buying more of something popular that has already gone up a lot, as money managers tend to do robotically in the latter stages of a boom, is not the same thing.)

There is a real advantage in having B-52 capabilities along with all one's other tools.

And while looking for attractive long-term investments in the B-52 style is not exactly what many would consider trading, and is stands apart in theory and execution from other aspects of both short-term trading and macro trading, there is a real advantage in having B-52 capabilities along with all one's other tools.

Then too, as briefly mentioned, having a go-to area of the portfolio with significant capacity for bullish positioning (i.e. B-52 positions) can create an "organic hedge" factor of sorts, allowing for larger-sized bearish positions which balance out versus the longs.

The truly equipped market participant is one who can identify highly attractive risk-reward opportunities in all kinds of environments – which means the ability to switch from one type of strategy to another, or one asset class or opportunity set to another, or even one time frame to another, in a broad-based way.

There may be some environments where B-52 opportunities are very hard to find, for instance, and currency or commodity markets are bursting with opportunity. Or there could be (and will be) environments with the exact opposite profile, where multiple B-52 opportunities are compelling.

We've only scratched the surface, but hopefully you've enhanced your knowledge as to this most potent of ways to build wealth in the stock market.