Q&A On Working with O'Neil, Timing the Market and the Keys to Trading Success

***Trade Like an O'Neil Disciple* Authors Gil Morales and Chris Kacher**

Q: How long did you work with William J. O'Neil + Company?

Chris Kacher: I worked with William J. O'Neil + Company for roughly six years, from January 1996 to October 2001.

Gil Morales: I worked for O'Neil for exactly eight years, starting in November of 1997 and departing at the end of October 2005. While there I headed up the Institutional Services group as VP and Manager, ran a portion of the internal proprietary portfolio as a Senior Portfolio Manager, served as Chief Market Strategist from 2004-2005, and co-authored with William J. O'Neil the Wiley title, "How to Make Money Selling Stocks Short."

Q: What was the most important thing you learned working with Bill O'Neil?

Gil Morales: Not to get carried away with oneself. O'Neil warned me that I would make a lot of money in this business, and that my ultimate survival would depend on how I dealt with that. In this business many people get carried away with the money aspect since there is so much of it sloshing around and the ability to make huge bonuses in the business or huge profits in the market is a regular occurrence. In this sense I learned to think of money as a tool, and not as an end in itself, hence I have developed a philosophy of using my market-generated wealth as a way to simplify my life, not complicate it, and to as a means of enhancing the meaningful aspects of life that add to its overall quality. I consider this to be one of the major ethics that O'Neil taught me, not only for the sake of my own sanity but also for the sake of my survival in the business and the markets over time.

Chris Kacher: The most important thing I learned is discipline, dedication, and what we call 'insane focus'. To be the best, you not only have to burn the midnight oil. You have to live and breathe what you are doing. This means having unswerving passion and discipline so that, at some point, you will have achieved mastery of your subject at a cellular level.

Q: How did you adapt your trading strategy after parting ways?

Chris Kacher: Every trader's strategy is like a fingerprint. No one is alike. While O'Neil's classic work "How to Make Money in Stocks" put me on the right path, with 1991 being my first successful year in the stock market, I continued to refine my learnings over the years. So leaving O'Neil+Company had little bearing on the evolution of my trading strategy. Rather, changes in the markets had the largest impact. Sometime after I left the firm, the major U.S. market indices began on a sideways, choppy, slightly upward path. It was unlike anything seen in the 1980s or 1990s. Base breakouts had a far higher failure rate. So I had to figure out ways to deal with these new market conditions. After much research, the pocket pivot was born, which enabled me to buy before a stock breaks out of its basing pattern.

Gil Morales: My trading style remains roughly the same as it was back when I ran money with Bill O'Neil, with the exception that I like to use newer tools like pocket pivot buy points that enable me to buy leading stocks earlier within their price consolidations or bases and provide me with an adequate and reliable method of adding to my winning stocks at proper continuation pocket pivot buy points. As well, my strategy has evolved since leaving O'Neil in that I have added to my research work on short-selling with some new patterns, such as the "Punchbowl of Death," or POD topping formation, which is covered for the first time in the book.

Q: What is the best advice you could give a trader looking to have the same kind of success you've had?

Gil Morales: Be willing to be wrong, and embrace failure. Mistakes are part of the game, as well as part of the way one uses the market itself as an information "feedback" system that helps one correct and adjust along the way. By understanding that you must "lose to win," a trader must be willing to be wrong a certain amount of time in order to reach the proverbial pot of gold. An unwillingness to accept that failure and mistakes are part of the process and instead insisting on being right all the time is a recipe for disaster. If you are stopped out of a trade, taking a small loss, be satisfied that your system worked properly and forced you to accept a losing trade in order to continue implementing your particular methodology or trading system. In this way you remain fresh and unencumbered in order to capitalize on the trades where you are right.

Chris Kacher: Set aside a minimum of an hour each day to read, study, and learn. If you are truly dedicated, you will set aside 5 to 7 hours a day. I provide my "Dr. K's Top 50 Wall Street Books" on www.virtueofselfishinvesting.com for good reading. Carry around a chart book with you so you can study and mark it up as you learn. Remember, you'll never know too much as William O'Neil himself said he is still a student of the markets. If you get to a point where you think you've figured it all out, that's a huge danger sign. Don't ever believe this because it will never be true. Stay vigilant in your studies and, over time, you will achieve success beyond your dreams. The journey of a thousand miles begins with a single step. See each hour of study as one step. Take enough steps and you will reach your goal.

Q: What is the biggest trading myth out there regarding market timing?

Chris Kacher: The biggest myth is that it can't be done. Sadly, 2008 cost many dearly, as most lost half their investment assets to the stock market that year. My response is that just because most timing models do not work, does not mean that all timing models do not work. There are only a handful that seem to have validity over many market cycles. The M in William O'Neil's CANSLIM stands for market direction. His paper Investor's Business Daily has made calls on the market since 1994. Its track record is one of the few that have beaten the markets over at least a 5 year period because it is based on sound principles that have worked for over a hundred years. My 'Dr K Market Direction Model' was inspired by the M in CANSLIM. My model is a statistical formulation of how the market works. I have worked with it in real-time, under fire since 1991, and it is largely responsible for my KPMG verified track record. It was up +38.8% in 2008, and if used with a 3x ETF such as TYH, scored a triple digit percentage gain in 2009. Full details and signals from my timing model are available at www.virtueofselfishinvesting.com.

Gil Morales: First, that it can't be done, and second that it does not enhance returns. In March of 2000, those of us at the O'Neil organization went to cash as we recognized climax tops in a broad number of leaders during that bull market phase, and this saved us from a great deal of damage. Most investors were crushed after the top in March of 2000 and lost a great deal of money, proving that not being able to time the market, and taking a "long-term buy and hold" attitude was in fact the wrong path to take. Market timing is not only possible, but it is necessary in these days of rapidly changing markets.