

## Using CANSLIM Analysis for Evaluating Stocks of the Companies Admitted in Tehran Stock Exchange

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**Abstract:** CANSLIM strategy is a method for analyzing stocks available in capital market which is combination of stocks fundamental analysis and technical analysis methods which have been used in global capital market in recent years. This method has been based on seven criteria which include 1- quarterly EPS, 2- annual EPS, 3- new management, products and services, 4- the number of float, 5- progress of industries, 6- institutional investment, 7- direction of market. The present paper is result of the research on “studying performance of CANSLIM analysis for evaluating stocks of the companies admitted in Tehran Stock Exchange “. In this research, we study seven factors of CANSLIM analysis affecting the selected stocks and finally main hypothesis of “studying ability to analyze CANSLIM in selection of leading stocks “and the obtained research confirms ability of this research to select leading stocks. By comparing result of this research with result of the research in this field which was conducted in 2006, this paper concludes that some factors such as sanction are effective on full efficiency of CANSLIM analysis. [Najafi M, Asgari F. **Using CANSLIM Analysis for Evaluating Stocks of the Companies Admitted in Tehran Stock Exchange.** *J Am Sci* 2013;9(4s):129-134]. (ISSN: 1545-1003). <http://www.jofamericanscience.org>. 21

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### 1. Introduction

Financial issues have been always important for personal, governmental investors and different companies. Each one of these groups seeks to maximize their wealth, for this reason, they should be careful when they make their decisions.

There are different ways for investment; investment in stock exchange is one of these ways. When stock exchange and investment are mentioned, this question is raised in mind of investors that on what stocks they should invest. Investors try to gain more profit if possible.

Analysts of financial markets usually use fundamental and technical analyses. In technical analysis, only price changes, transaction volume, and calculated values off prices are used. In fact, information content in technical analysis only includes price and transaction volume while in fundamental analysis, very broad information such as information inside the company such as EPS, financial ratios, development plans, potential receivables of the companies and information outside the company such as bank interest rate, inflation, exchange rate, economic growth, political changes, oil price and the like are used (Thomsett, 2006 & Samadi and others, 2010).

It is necessary to note that none of the above two methods are not perfect and each one of them has its own advantages and disadvantages. For this reason, financial experts recommend using these two methods beside each other. In fact, technical analysis is regarded as complement of fundamental analysis

(Kani, 2004). Therefore, we need a method which is combination of both methods. On this basis, a method has been used which contributes to our need for removing defects of fundamental and technical analyses. This method which is called CANSLIM is regarded as method which is combination of both fundamental and technical analyses today and has been considered in global market in recent years. In Iran, Maryam Torbati conducted research on evaluation of performance of CANSLIM on selected stocks of Tehran Stock Exchange by studying 30 top companies during 2001 to 2005 and concluded that this method is fully responsive in Iran (Rahnamay Roodposhti & Torbati, 2007). On this basis, this paper compares achievement of the research conducted by Ms. Torbati and concludes that this method is not fully responsive in Tehran Stock Exchange considering issues such as sanction in Islamic Republic of Iran.

### 2. Research History in the World

Beyoglu and Ivanov (2008) conducted a research entitled technical analysis of CANSLIM stocks. In this research, combining technical and fundamental analysis, adding CANSLIM investment method and using quality calculation system and analyzing Monte Carlo for evaluating research stages, they have concluded that one can achieve long-term strategy by combining moving average crossover strategy with CANSLIM method of William Onell (Iavnov & Beyoglu, 2008).

Gillt (2005) in his research studied CANSLIM analysis in German CDAX stock market

where he didn't confirm ability of this analysis to select leading stocks and believed that its reason was limitation of stocks in German CDAX (Gillt, 2005). Wermke (2010) studying this method in German CDAX stock market has confirmed ability of this analysis to select leading stocks. Goal of this research is to use this combinatory approach in Tehran stock market and study whether one can have secure investment or not (Wermke, 2010).

### **3. Research method**

In the present research, statistical population includes all companies admitted in Tehran Stock market among which the group of companies which has high activity volume and is among 50 top companies admitted in Tehran Stock market form space of research sample. 5-year time interval is considered from 2007 to 2011 and companies admitted in Tehran Stock market are studied in this time interval to find conformity with seven factors of CANSLIM method.

#### **3.1. CANSLIM analysis method**

As mentioned above, fundamental and technical analyses have their own advantages and disadvantage. Fundamental analysis is a long-term analysis of which disadvantages are covered by technical analysis (Krantz, 2007 & Shahdaei 2005). Therefore, we need a method which is combination of both methods. We intend to introduce a method which contributes to our need for removal of defects of technical and fundamental analysis. This method which is called CANSLIM has been considered as a method which is combination of both technical and fundamental analyses in global capital market in recent years. This method has been based on seven criteria which are as follows.

##### **3.1.1. Current quarterly EPS**

William Oneil was the first person who questioned role of factor P/E in stocks analysis and concluded that factor P/E played very small role in stocks analysis and instead, factor of EPS played very important role in progress of stocks movement trend. Its reason was clear to some extent because the company which is growing continually will be the company which acts in favor of its stockholders and will increase its price if it can keep its EPS growth fixed though it has high P/E (Oneil, 2002).

##### **3.1.2. Annual EPS**

William Oneil having conducted his 5 to 10-year studies concluded that the stocks which have had average annual EPS growth has value. In order to prevent purchasing loss stocks in an industry, we should follow 5-year growth rule. By doing so, we exclude 80% of the available stocks in the desired group from the list because most stocks available in an industry either has weak growth or has no growth at all (Oneil, 2002).

#### **3.1.3. New Management, New Contract, New High Prices and New Products**

According to Oneil, new management, new contract, new high prices and new products can increase a stock. For example, stocks price of Niocol Company increased from \$48 to \$335 between 1959 and 1957 due to supply of new fuel for missiles or stocks of McDonald grew by 1100% with its restaurants chain during 1971-1976 and price of International Game Technology Company increased by 1600% during 1993-1991.

##### **3.1.4. Float**

Total number of stocks in capital structure of the company indicates the number of potential stocks which are available for purchase. Supply of float is another concept meaning the number of stocks which is available to managers of the company for purchase after deducting stocks (Reilly & Brown, 2011).

William Oneil in his study on successful stocks of the market concluded that most of successful stocks have float of below 25%. The reason is that the stocks which are available to the public change a little and it is exactly like the large stone which is difficult to shake. But the stocks with low float is easily fluctuating.

##### **3.1.5. Leading industries**

It is very important to pay attention to industrial group because the best stock in the worst industrial group is worse than the worst stock in the best industrial group. Almost people purchase the stock which they like or have good feeling or feel comfortable. These stocks are usually emotional and have unordinary and emotional fluctuations in market instead of stable and leading movement. To specify leading stocks in the industry, relative strength of stock price is used which usually measures performance of stocks relative to changes of total mean of market or all of the other stocks in some cases. Now, if relative strength of stock is higher than 70%, it will indicate that the stock is one of the leading stocks (Oneil, 2002).

##### **3.1.6. Institutional ownership**

Large investment companies benefit from very strong research groups to select and include a stock in their portfolio. Oneil concludes that when a stock is included in portfolio of one or more (at most 4 to 5) investment companies, it is the stock which has good growth potential. In this regard, we use research and consulting group of large legal companies in our favor (Oneil, 2002).

##### **3.1.7. Direction of market**

According to Oneil, the best way for layout of this combinatory approach is MANSLIC that is factor of market direction is the most important factor in decision making and analysis. In descending

market, the best stocks have no high soaring strength while they experience good growth in soaring stock market. Direction of market is obtained from use of market index analysis. CANSLIM is not only academic model because its infrastructural factors have been determined through trial and error during years. For this reason, it is contradictory with the accepted models such as capital asset pricing model or foreign currency pricing hypothesis. However, this nonacademic nature is not necessarily regarded as a shortcoming. Based on Investopedi, there is evidence that CANSLIM is effective. Finally, a trend of CANSLIM was identified by American Association of Individual Investors from January 1998 to December 2008 which resulted in return of 13.51% while S&P500 has decreased by 6.9% at the same period.

### 3.2. Research Statistical Population

In Tehran Stock Market, 728 companies have been admitted among which about 434 companies have stopped working and other five companies have no clear condition. In other words, about 439 companies admitted in Tehran Stock Market are the companies whose stocks are not transacted in the stock market for different reasons. Therefore, we should select our sample among 289 remaining companies and transaction volume criterion (i.e. the number of transacted stocks per day) relating to stocks of the company as the best choice for select of the sample. Since volume varies in different days, a mean volume is considered as criterion during three-month period.

Tehran Stock Market introduces 50 companies active in Tehran Stock Market based on the mentioned criterion which is called index of 50 top companies every three months. In this research, to select sample size, we have specified frequency of the attendance of different companies in list of 50 top companies from March 2011 to summer 2012 which is totally six periods, then, we selected the companies which attended continually during three periods to study hypotheses of CANSLIM on them and totally 30 companies were randomly selected.

### 4. Research hypotheses

This research studies seven criteria referred in CANSLIM method regarding stocks of Tehran Stock Market. To study these seven criteria, a main hypothesis and even sub hypotheses should be studied.

#### 4.1. Main hypothesis:

The stocks which are selected with CANSLIM method will grow considerably in future.

#### 4.2. Sub hypotheses:

- 1- Growth of current quarterly EPS of a company by 20% above compared with the similar season in the previous year will show soaring movement of stock in Tehran Stock Market.

- 2- Growth of annual average EPS of a company by 25% above will show soaring movement of stock in Tehran Stock Market.
- 3- New things which occur in the company including new managerial change, creation of new product, new price changes etc cause soaring movement of stock in Tehran Stock Market.
- 4- Float stocks of below 25% is effective on return of stock in Tehran Stock Market.
- 5- Leading industry relating to the company is effective on soaring trend of stock in Tehran Stock Market.
- 6- The presence of institutional investors' sponsorship in the company can cause soaring trend of stock in Tehran Stock Market.
- 7- Direction of market is effective on movement of the stock.

### 5. Data analysis method

To analyze collected data, descriptive and inferential statistics methods have been used altogether. Descriptive statistics has been used to collect, prepare and provide information clearly and by calculating knowledge of society and if necessary, determining relationship between the collected information. To collect necessary data, information available on site of stock market and the related sites (codal network) and more useful software have been used.

In this research, the information has been analyzed by SPSS software using Pearson Correlation Coefficient test.

### 6. Conclusion

Considering the mentioned analysis method, all mentioned hypotheses in the paper were studied and results obtained from this study were compared with research results of Ms. Torbati as follows:

**First hypothesis:** Growth of quarterly EPS of a company by 20% above compared with the similar season in the previous year will show soaring movement of stock in Tehran Stock Market.

In this section, we studied quarterly EPS of the sample stocks which is summarized in table and the stocks which have quarterly EPS of above 20% have been marked with +. Considering that only 13 out of 30 companies to be studied have these characteristics, the above hypothesis is not confirmed and doesn't hold true for the entire population.

To study relationship between the stocks which have growth of quarterly EPS by 20% above and total return of that stock in the last financial year, Pearson Correlation method has been used with SPSS software. Result of the performed analysis indicates that there is weak and reverse correlation between 20% growth of quarterly EPS and total return of that stock in the last financial year and significance test

doesn't confirm correlation between these two variables.

Table 1- summary of results relating to quarterly EPS

Company	quarterly EPS of 2012	quarterly EPS of 2011	Increase (decrease) percent	
North Drilling	114	85	34	+
National Iranian Copper Industries	207	156	32.7	+
Iran Transfo	66	124	46.8	-
Bank Mellat	102	72	41.7	+

**Second hypothesis:** Growth of annual average EPS of a company by 25% above will show soaring movement of stock in Tehran Stock Market.

Summary of the necessary information for studying this section is shown in table 2. The companies which have this characteristic have been marked with +. Considering that only 13 out of 30 companies to be studied have this characteristic, the above hypothesis is not confirmed and doesn't hold true for the entire population.

To study this hypothesis regarding relationship between the stocks which have mean growth of 25% above and total return of that stock in the last financial year, Pearson Correlation method has been used with SPSS software. Result of the performed analysis indicates that there is weak and reverse correlation between two variables and significance test doesn't confirm correlation between these two variables.

Table 2- summary of results relating to annual EPS

Company	EPS of 2007	EPS of 2008	EPS of 2009	EPS of 2010	EPS of 2011	Average annual growth	
North Drilling	216	98	284	300	253		
Changes percent		55	190	6	18	39,75	+
National Iranian Copper Industries	1523	1082	1592	2311	885		
Changes percent		29	47	45	62	0.25	-
Iran Transfo	1202	1862	2935	3784	2767		
Changes percent		55	58	29	27	28/75	+
Bank Mellat	152	226	278	502	403		
Changes percent		49	23	805	20	33.1	+

**Third hypothesis:** New things which occur in the company including new managerial change, creation of new product, new price changes etc cause soaring movement of stock in Tehran Stock Market.

In this section, we compare total return of each stock with total return of Tehran Stock Market to study the above hypothesis. In table 3, the stock which has total return higher than or equal to total market return (9,05%) has been marked with + and the stock which has return lower than total return of market has been marked with -.

According to the conducted studies, 18 companies have had return higher than or equal to total return. As a result, because more than half of the tested population has these characteristics, this hypothesis is confirmed.

Table 3- summary of results obtained from study of new services, new products and new management

Company	Return (%)		Company	Return (%)	
North Drilling	24.25	+	Tekin Ko Corrosion Control	27.37	-
National Iranian Copper Industries	38.01	+	Iran Telecommunication	13.45	+
Iran Transfo	17.73	+	Bank Tejarat	8.47	-

**Fourth hypothesis:** Float stocks of below 25% are effective on return of stock in Tehran Stock Market.

To study this hypothesis, we have studied relationship between free floats of below 25% and total return of each stock. For this purpose, we obtained correlation coefficient and its significance rate using SPSS software. The obtained result shows that there is very weak and direct correlation between two variables and significance test doesn't confirm correlation between two variables.

Table 4- summary of results obtained from study of free float

Company	Float percent		Return (%)	Company	Float percent		Return (%)
North Drilling	9	+	24.25	Tekin Ko Corrosion Control	33	-	27.37
National Iranian Copper Industries	21	+	38.01	Iran Telecommunication	4	+	13.45
Iran Transfo	14	+	17.73	Bank Tejarat	12	+	8.47
Bank Mellat	24	+	25.21		12	+	57.04

**Fifth hypothesis:** leading industry relating to the company is effective on soaring trend of stocks in Tehran Stock Market.

To study this hypothesis, we have studied relationship between stocks with relative strength of 70% above and total return of the company and obtained correlation coefficient and its significance rate using SPSS software.

The obtained result shows that there is very weak and direct correlation between two variables and significance test doesn't confirm correlation between two variables.

Table 5- summary of results obtained from study of the sample stocks group and relative strength of stocks

Company	Comparison of ratio to total index	Relative strength	
North Drilling	Included in oil and gas extraction group and accessory services which have weak relative strength.	60.3	-
National Iranian Copper Industries	Included in base metals group which has good relative strength.	76.9	+
Iran Transfo	Included in machinery and electrical devices group which has weak relative strength.	75.1	+
Bank Mellat	Included in group of banks, credit institutes and other financial institutions which has good relative strength.	76.7	+

**Sixth hypothesis:** The presence of institutional investors' sponsorship in the company can cause soaring trend of stock in Tehran Stock Market.

To study this hypothesis regarding total return of each stock and total index return of Tehran Stock Market, we study effect of institutional owners on stocks return. In table 6, the stock which has total return higher than total market return has been marked with + and the stock which has lower return has been marked with -.

According to the conducted studies, 18 companies have had return higher than or equal to total return. As a result, because more than half of the tested population has these characteristics, this hypothesis is confirmed.

Table 6- summary of results obtained from study of new services, new products and new management

Company	Return (%)		Company	Return (%)	
North Drilling	24.25	+	Tekin Ko Corrosion Control	27.37	-
National Iranian Copper Industries	38.01	+	Iran Telecommunication	13.45	+
Iran Transfo	17.73	+	Bank Tejarat	8.47	-
Bank Mellat	25.21	+	Iran Behshahr Industries Group	57.04	+

**Seventh hypothesis:** Direction of market is effective on movement of the stock.

In this section, we specified trend of market by studying total index return of Tehran Stock Market every month. Total index return of Tehran Stock Market has grown in some months and didn't grow in some other months and total return of the year is equal to 9.05%. Although this return is not so high, it indicates soaring trend of market.

By studying return of each stock with total index return, 20 out of 30 companies had positive growth of total return in the last financial year (financial year ending to 20 March 2012 and only two companies had growth below total market return. As a result, because more than half of the tested population has these characteristics, this hypothesis is confirmed.



**Main hypothesis:** The stocks which are selected with CANSLIM method will grow considerably in future. In this section of research, we first identify the stocks which have all seven criteria of CANSLIM strategy and then we find if this strategy is suitable for selection of leading stocks or not by comparing total return obtained in financial year ending to 20 March 2012 with total market index return.

In table 7, we showed the companies which have had seven criteria of CANSLIM strategy. As specified, we identified four out of 30 tested companies which had higher return than total index return indicating that this strategy is able to identify leading stocks. Therefore, main hypothesis of this research is confirmed.

Table 7- selected stocks of CANSLIM strategy

Company	Return of 2011
Behhahr Industries Development	34.77
Informatics Services	44.73
West Cement	158.14
Iran Behhahr Industries Group	57.04

On this basis, as specified in table 8, results of four hypotheses are different from results obtained in research of Ms. Torbati. Since economic conditions of each country are effective on performance of the companies, this is effective on performance of their activity in Stock Exchange and since Iran are under different sanctions such as economic sanction, such differences between two researches are possible.

Table 8: Comparison the result of present research and research of Ms. Torbati

	Present research	Research of Ms. Torbati
First hypothesis	Rejected	Confirmed
Second hypothesis	Rejected	Confirmed
Third hypothesis	Confirmed	Confirmed
Fourth hypothesis	Rejected	Confirmed
Fifth hypothesis	Rejected	Confirmed
Sixth hypothesis	Confirmed	Confirmed
Seventh hypothesis	Confirmed	Confirmed
Main hypothesis	Confirmed	Confirmed

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