

Buy High, Sell Higher

How The Real Math Of Compounding Favors Proven Winners, Not Bargain Bin Stories

Summary

- This paper makes a simple but uncomfortable case: the math is on the side of buying leaders near their highs and selling much higher, not hunting “cheap” stocks after big declines. William O’Neil’s research into hundreds of standout winners shows that the great stocks were already near new highs and in strong uptrends before their major advances, with earnings, sales, and institutional demand all pointing in the same direction.
- For advisors, the key shift is from “price story” to “compounding story.” In our opinion, a beaten-down stock that rebounds 20% from a 60% decline still leaves clients far behind, while a true leader can add 20% repeatedly in a strong trend as the underlying business compounds. We believe the portfolio tilted toward leadership needs fewer correct picks to transform outcomes; the portfolio packed with low-priced laggards needs many miracles just to catch up.
- The paper also reframes risk. High prices are not inherently high risk—behavior is. In O’Neil’s world, risk is defined by discipline: buying leaders with strong fundamentals, cutting losses quickly around 7–8% below the buy point, and adding only to names that confirm their strength. Advisors who adopt this mindset stop apologizing for buying near highs and instead position themselves as curators of proven business excellence and price strength, steering capital toward genuine leadership and exiting fast when that leadership fades.

In our opinion, financial advisors should stop apologizing for buying stocks at their highs. The math, and William O’Neil’s work, is firmly on the side of paying up for leadership and then selling much higher, instead of forever hunting “cheap” names that rarely lead to anything but client disappointment.

Leadership vs “cheap” is a math problem

Most advisors still live under the old slogan “buy low, sell high.” It sounds prudent, almost conservative, but in practice it often means buying weak, troubled businesses just because the price looks low on a chart or the P/E looks friendly. O’Neil’s research into hundreds of the biggest winners showed something uncomfortable for that mindset: the standout stocks were already near new highs and already in strong uptrends before their major advances.¹

When you buy a clear leader that breaks out to a new high on surging volume, you are paying for proven demand and proven execution, not a bargain bin mystery. Cheap stocks are usually cheap for reasons that the market has already weighed and rejected. Their earnings are erratic, their sales growth is dull, and institutions are not accumulating them. Although often called “value” in a pitch deck, the opinion of some is that the math of compounding works better with companies whose profits and prices are already moving up fast.

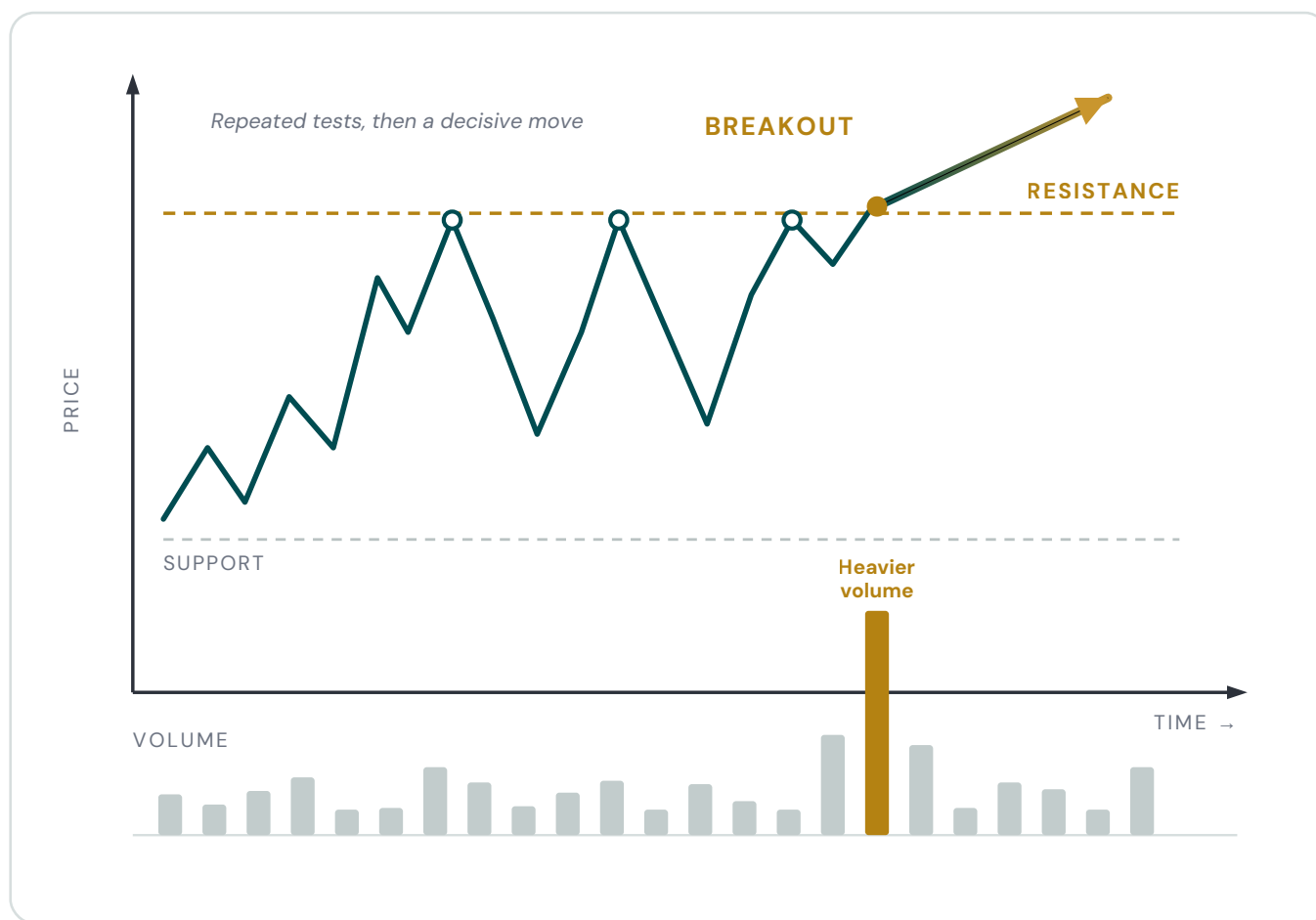


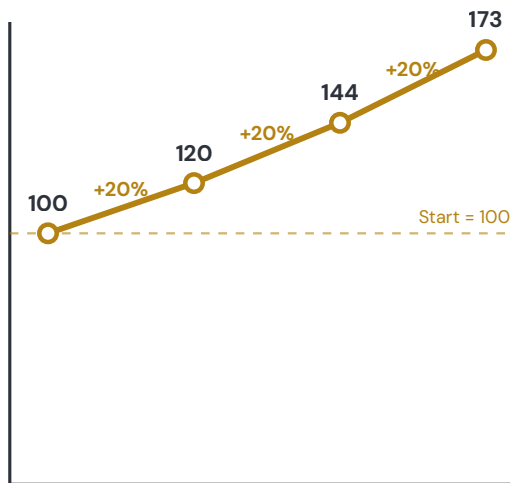
EXHIBIT 1 — HYPOTHETICAL EXAMPLE Anatomy of a leadership breakout. A leader, over time and repeatedly, tests resistance, then clears it to a new high on heavier volume — the demand-confirmed move O’Neil’s paper describes, conceptually.

The compounding edge of “buy high, sell much higher”

For an advisor, this is really about expected payoff per unit of risk. O’Neil’s CAN SLIM framework forces you into companies with strong quarterly and annual earnings growth, new products or leadership, tight supply, and visible institutional sponsorship. Those are the stocks that may move 100 percent, 200 percent, or more over a cycle, because the business itself is compounding at high rates.

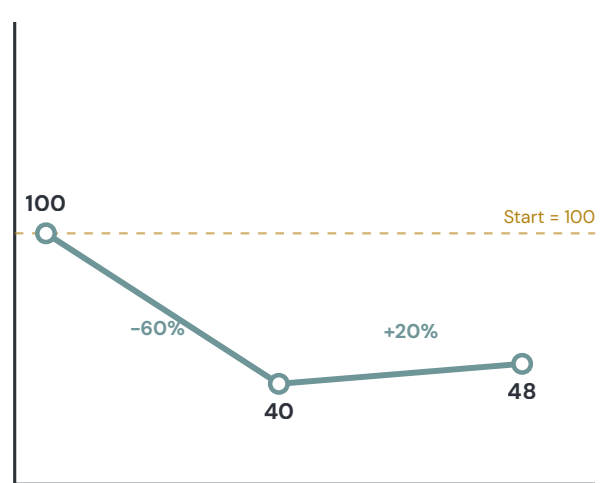
Contrast that with the usual “it’s down 60 percent, it must be cheap” story. A weak laggard that rebounds 20 percent from a depressed level still leaves the client far behind, and in many cases these names keep drifting lower because nothing fundamental has changed. The leader, bought near a high, might add that same 20 percent in a few weeks as institutions add to positions, then repeat the process again. The math gets simple. A portfolio tilted toward leaders needs fewer correct picks to transform outcomes. A portfolio packed with low-priced laggards needs many miracles just to break even.

Buying leadership near highs



Leader in a strong uptrend — accelerating earnings, sales, institutional demand

Buying “cheap” after big declines



Weak laggard — nothing fundamental has changed

EXHIBIT 2 The compounding gap. Illustrative. A leader compounding +20% three times (100, 120, 144, 173) versus a name down 60% that then rebounds +20% (100, 40, 48). These are simple arithmetic examples of compounding — not results from a study of actual stocks — and do not represent any fund’s performance.

“A portfolio tilted toward leaders needs fewer correct picks to transform outcomes.”

Risk management: high price is not high risk

Advisors often worry that clients will see a high share price and equate it with high risk. In O’Neil’s world, risk is defined by behavior, not price level. He recommends cutting losses quickly, usually around 7–8 percent below the buy point, and adding to winners that confirm their strength. That discipline supports the idea that “buy high” is much safer than it sounds, because every position comes with a clear exit tied to the chart and the business, not to hope.

Buying a beaten-down stock because “it can’t go much lower” is actually a reckless move under O’Neil’s leaders buy-sell approach. Weak names tend to keep getting weaker, and advisors who refuse to sell often expose clients to deep, open-ended drawdowns. A leader breaking out to new highs with heavy volume and strong fundamentals, by contrast, has proven demand, improving economics, and an obvious technical line in the sand if the story changes. The sticker price might feel uncomfortable, but the risk is defined and manageable.

Common client view: High price = high risk	O'Neil's view: Risk = behavior, not price
 Sticker shock	 Buy leaders near highs with strong earnings and sales
 No defined exit	 Define risk by a 7–8% sell rule below the buy point
 Hope for a pullback or recovery	 Add to winners that confirm strength; sell laggards fast
 Open-ended drawdowns in weak names	 High price, but risk is clear and finite

EXHIBIT 3 Price shock vs. defined risk. The client's "high price = high risk" worry, reframed as O'Neil's behavior-based, sell-rule-defined view of risk. The items paraphrase the paper's discussion and are not direct quotations.

What this means for your advisory practice

If you manage money for others, the "buy high, sell much higher" mindset asks you to shift your identity, as you seek to become a curator of portfolio holdings consisting of proven business excellence and price strengths — based on the behavior-based research. That means screening for leaders in their industry, with accelerating earnings and sales, relative strength near the top of the market, and clear signs of institutional accumulation.

It also means explaining to clients that you are buying into momentum backed by real numbers, not chasing fads. You can show them that the big historical winners started their runs near highs, not near lows, and that strict sell rules help keep their downside controlled. Over time, your value is no longer in finding "cheap" stocks. It is in steering capital toward genuine leadership and exiting fast when leadership fades. That is how you align your practice with the actual math of compounding, instead of the old slogans that sounded wise but never really earned their keep.

For more information about the "Buy High, Sell Higher" theory, contact us at info@capforceetf.com or (800) 324-3998.

¹ William J. O'Neil, *How to Make Money in Stocks: A Winning System in Good Times and Bad*, 4th ed. (New York: McGraw-Hill, 2009). O'Neil's findings on market-leading winners and the CAN SLIM® methodology are described therein.

Important Information

IMPORTANT RISK INFORMATION

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THIRD-PARTY RESEARCH AND MARKS

References to William J. O'Neil, the CAN SLIM® investment methodology, and Investor's Business Daily® reflect independent third-party research and are the property of their respective owners. CapForce is not affiliated with, sponsored by, or endorsed by these parties, and their inclusion does not imply any endorsement of CapForce or its funds.

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