

Mark Minervini

Interview with Tim Bourquin

Mark Minervini is one of America's most successful stock traders; a veteran on Wall Street with nearly 30 years of experience. He won the 1997 U.S. Investing Championship with a 155% return and is featured in Jack Schwager's Stock Market Wizards; Conversations with America's Top Stock Traders. Using his SEPA® trading strategy, in a five-and-a-half-year period Minervini generated an average annual compound return of 220 per cent with only one losing quarter. To put that in perspective, a \$100,000 account would explode to over \$30 million with those returns. Minervini educates traders about his SEPA® methodology through Minervini Private Access at www.minervini.com.

Tim Bourquin: Hello everybody and welcome back for another interview this week. My guest today is Mark Minervini and you've probably seen him on TV before. He's been a guest on a lot of different programs and talks about the markets a lot and he's a trader. We're going to talk with him about his overall approach to the markets and his philosophy about finding good opportunities. So, Mark, first of all, thanks very much for joining me on the phone today.

Mark Minervini: Okay. It's great to be here.

Tim Bourquin: All right, well first of all, if you can, talk about your overall trading philosophy, kind of the way you approach the markets, technical, fundamental, or some combination of the two.

Mark Minervini: Okay. Well we approach the markets from both. We use technicals, we use fundamentals and qualitative analysis. We're trying to use all the tools that we can to be involved in the best situations that the market has to offer. So we like to see the fundamentals back up the technicals, but we do have one rule, we're never going to bet on our fundamental ideas without having some technical confirmation. So we definitely always want to see the technicals back up the fundamentals.

Tim Bourquin: Are you trading mostly equities these days?

Mark Minervini: Yeah, I trade equities. I've been trading equities for almost three decades now. Of course, there were times where I tried to trade options and futures and various different instruments, but I ended up realizing that my passion was in individual stocks.

Tim Bourquin: Well, do you have kind of a favorite timeframe or a chart whether it be

candlestick charts, any indicators you use? Kind of talk about your basic chart that you like to watch.

Mark Minervini: I don't use really any indicators whatsoever except just a few moving averages for some smoothing and I don't really use candlesticks or anything like that either, just regular bar charts with volume. So, we're just look at price and volume and some moving averages. That's a basic approach. Of course, I go back to the days where we used to actually plot our charts by hand on graph paper. So it may sound like it's basic, but it's a lot more complex than what I originally started doing.

Tim Bourquin: So talk about the kinds of opportunities that you're looking for. Is it, you know, support and resistance moves or just things in the news that have momentum? What's kind of your favorite type of trade?

Mark Minervini: Well, my favorite type of trade is a trade that meets our strategy, which is called Specific Entry Point Analysis, SEPA for short, and that's just when you have the fundamentals, the technicals, and a bunch of different criteria that all converges sort of like four cars coming to a full-way intersection at the same time. When we get a convergence in all of those criteria, we then pull the trigger for the trade.

Tim Bourquin: All right. What sectors or stocks have met those criteria recently?

Mark Minervini: Well recently, the market has been difficult and we haven't had a whole lot of ideas and that's one of the problems why we're not in the market right now. We were just recently trying a few pilot ideas and we quickly got stopped out so we've been in cash recently.

Tim Bourquin: All right. Talk a little bit more about the SEPA, the Specific Entry Point Analysis, right? Is that right?

Mark Minervini: Yes.

Tim Bourquin: Talk a little bit more about that if you can get into kind of some specifics in what you're looking for.

Mark Minervini: Yeah, sure. Well first, I started off as a quant many years ago, which means starting off the overall market then moving to industry groups then finally into the stock within a group. And what I found was that many of the best stocks already made their big gains and I was late. So, what I did was I started analyzing some of the best names and what the biggest winning stocks in the past did and changed to a bottoms up approach. Basically, SEPA is looking for -- it's a strategy that's, you know, our own developed strategy and we're not using patterns or things

that are very classic. For instance, you know, resistance and support and some of the terms that you might hear being thrown around by technical analysts, they're not something that we really get involved with. We do have some patterns that we look for. A classic pattern of course would be a cup and handle type pattern. That's something that is very prevalent in many of the stocks that go through corrections and are ready to emerge.

Tim Bourquin: Now, you mentioned you haven't found a lot of opportunities recently in this market. What do you think is affecting this market the most right now? What's stepping in the way of finding good trades?

Mark Minervini: Well, I just think the market is totally in a bear phase and needs to complete that phase. Of course, there's a lot of reasons for that. There's always a reason why the market is doing whatever it's doing. But we have big problems in Europe and around the world. US has got some problems with its own economy. So I just think that we're going through a typical phase that we normally do. I think on a secular basis, we're in a long-term bear phase. We had cyclical bull markets along the way, we've had bear markets and bull markets along the way and we're currently in a bear market. [0:05:01]

Tim Bourquin: Well, a lot of the listeners here are looking for advice on how to become a consistent trader more quickly. Maybe they've been doing it for a while, six months, even a year, a couple of years and they're still kind of hunting around for the strategy that suits them. How long did it take you to find your strategy and your success, consistency as a trader?

Mark Minervini: Well it took me quite a while. First of all, nowadays, you have a lot of information at your fingertips. For instance, this interview right here, which is going to be going on the internet is an example of that. So you have a lot of free information and you can access a lot of great traders and a lot of great ideas. When I first started, there wasn't much. I just could read books so I went to libraries and read books. So it took me about six or seven years before I was even profitable. And then from that point, it took another two years before I really was able to do this well. So I had a good decade invested before I really started to do well. But then in just a few years, I made more money than I dreamed of making in the entire ten years so it eventually paid off. So you want to stick with it and take your time, but the main thing is not to try to rush it. Not to try to think that you're going to learn it too fast. It does take some time.

Tim Bourquin: What do you think clicked for you when you did start to make money? Was it an idea that you implemented that worked or what was it that made the difference?

Mark Minervini: Well, a few things made the difference. The first thing is I made sure that I decided on a particular strategy that I was going to stick with. Sort of like in a relationship with a wife when you get married you have to be faithful and you have to not cheat on your wife or you

won't have a very good relationship. Same thing with a strategy, you want to stick with a strategy and be loyal to it. There's going to be times where it doesn't do well and there's going to be times where it does great, but you'll never get really good at something if you don't stick with something, if you're bouncing all over the place and trying all different strategies. So you want to first make sure that you have some good selection criteria and then stick with a strategy. The other thing that I made big change was I started cutting my losses really short. And prior to that I was having the occasional, you know, just this one time I'm going to hold it down and having a catastrophe every now and then and that was causing some real problems in my portfolio.

Tim Bourquin: And was it just a matter of discipline and taking those losses or what happened that made the difference for you there?

Mark Minervini: Well, what happened was that I started doing the math and I started realizing. I went back and I took a look at my trades and I said, you know, let me see if I just arbitrarily cut all the losses at say 10% and then the number came back. I went from about a 12% loss in my portfolio to an 80% gain. I said, wow, that's really something else. I can't even believe it, maybe I made mistake there. I recalculated the numbers again and it said, yup, it's correct. And it has sun an enormous impact so then I said well let me take a look and see if - I must have knocked out some of the stocks that would have been winners and maybe that's where the glitch is here. But it only knocked out a few and the results were still about the same so I said there's really something to this, keeping those losses in check. Also, you have to realize that losses work geometrically against you. So, you know, a 50% decline takes a 100% gain to get even, but a 5% decline only takes a 5.5% gain to get even. So you want to make sure you stick with that math so it doesn't start working against you.

Tim Bourquin: The timeframes that you're typically -- are you a day trader, a swing trader, longer term, what do you do?

Mark Minervini: I'm a swing trader. I will short term trade around positions and will also hold positions longer term for several quarter, but generally, I'm not holding positions for a year or two. Generally, it's one, two, three quarters.

Tim Bourquin: And are you scaling in and out of those as well? I mean once you find something, are you really putting size on after you've dipped your toes in or how does that work?

Mark Minervini: Well, it depends on how I feel about the overall market. Generally, if I'm entering in after a bearish phase and I'm starting to just come back in the market from cash, I'm going to go in very slowly. And I'm only going to step up my position sizing and step up my trading when I get some gains and I start seeing that I've gotten some traction and that's one of the keys to keeping your losses minimal. You don't want to just plunge in and you want to build

on successes. But once I start to see that things are working out and I feel the market is healthy then I just step it up very quickly and I move to a very aggressive foster.

Tim Bourquin: What do you think some of the - well we've talked about them a little bit here, but some of the most common mistakes that you see traders make? You've been through a lot of these different types of markets, you've seen a lot of traders probably have success and blow up too. Anything comes to mind that people are doing wrong?

Mark Minervini: Well, there's a lot of things that people do wrong, but there's generally a small list of things that account for the major amount of failures out there. One is of course having poor selection criteria to being with. Some people are concentrating on things that just don't even really have anything to do with big stock performance. The other thing is that most traders believe it or not do not cut their losses. If they do cut their losses, they do it for a short period of time and then when it's not working very well, they stop and they hold something down or they average down, which is much worse. [0:10:10] And one of the worst things like I said before is they don't stick with a style or method so they're never really becoming proficient at anything. And finally, it's not knowing the truth about your trading. Most people don't even know what their trading really entails. They don't know what their numbers are, what their average gain is, their average loss, their batting average. These various numbers in the rations, they don't really know this stuff so they don't really know where they are. They have no real idea of where to set their stop loss and where to take gains because they don't know when they're doing much better than normal or much more worse than normal. So you have to know the truth about your trading also.

Tim Bourquin: Now, you've mentioned in the beginning that since the SEPA strategy wasn't really offering many opportunities these days, you've tried a few different things, they didn't work so you're just going to wait in cash. How often do you do that then? How often do you try new things to see well maybe, you know, SEPA is just not working in this market, I need to find something better?

Mark Minervini: Well SEPA always works. If it's not working, the market is not right. There can only be two things wrong if you're having trouble with trading. Either you have poor selection criteria or the market is hostile. So if you know your criteria is good then it just simply means the market is not right. So it can only be one of those two things. If you have a great strategy and it's not working, it must be the market. Now I'm not going to change my strategy because I'm getting stopped out. Generally, what happens is I'm getting knocked out of trades that are setting up properly and I have the proper ingredients for the SEPA trades, generally very shortly after the market rolls over or goes into a volatile sideways period and it would have been better off staying out anyway. So that's normally what happens. But we'll enter in as many times as it takes, but you don't get where you get these setups often and when they finally do start

working out and you get into a bull market, it's something that will keep working for quite some time. Once the bull market starts, you'll have months and months and months of good setups working out.

Tim Bourquin: Now your strategy is called the Specific Entry Point Analysis, but what about profit targets and stop losses, does it tell you how to set those up?

Mark Minervini: Yeah. Well after, you know, doing this for many, many years, of course I have a good idea of what I can expect from my trades on average. Setting a stop is really a mathematical calculation for me because once you know what you can expect on average and you can get a good idea of how many times or what percentage of the time you're going to be right, it just becomes mathematical calculation on where you need to put that loss to be in mathematically win situation. So, as you first start trading of course, that your numbers may not be as good as I can get in the market or as good as you can get. Eventually, it will get better, but at some point, they will get to a point where you can't really improve upon them that much. You'll start to really have the strategy down and at that point, you'll get an idea of when you're moving beyond what you normally can achieve. So we have a few ways, one is by theoretical-based assumptions, the other one is called a result-based assumptions. There's not enough time in this interview to go through everything, but it just simply means that you buy stock at say 20 and you think you can go to 30 based on technical analysis, maybe that's a 10-point gain. You're not going to go in there and just set a 5-point loss just based on just that. You have to take a look at your results. If on average, you're only getting say two points on average on your gainers, I'm using points instead of percentages just to make it simple, but you're getting a much smaller amount on your result-based assumptions looking at your results, you don't want to set that stop further than where your results generally fall. So once you start getting beyond that so say your average gain is 10% and you get up to 20%, you just start trying to protect that. So as I move up to my average gain, I start to ratchet up the stop and then once I get above that I start to choke off the trade.

Tim Bourquin: You mentioned moving averages earlier, can you tell us what moving averages you like to use?

Mark Minervini: Yeah, I just simply keep a 20-day, a 50-day, a 200-day moving average and that's pretty much it.

Tim Bourquin: All right. And are your trades based off the daily charts or shorter term?

Mark Minervini: Well they're based off the daily and the weekly. We like to look at both. Short term starts with the intraday 5-minute charts. Sometimes we use a pullback buy and we might use an intraday to try to get an entry, but generally it's off the daily chart and we like to see the

weekly setup. We have a philosophy that your shorter term timeframe is only as good as where it resides within the longer term timeframe.

Tim Bourquin: What do you mean by that? I'm not sure what that means.

Mark Minervini: Well, it means that let's just say you have a certain, you know, pattern or a certain type of price action, it's going to have a complete different implication if it's in a long term uptrend versus a long term downtrend. So we're looking for stocks that are in longer term uptrends and continuation moves. However, we may have the exact same type of setup, but it's in a long term downtrend and we're not going to touch it even though the shorter term timeframe, the daily chart looks really good from a shorter term timeframe, but it's in a nosedive on the longer term timeframe. [0:15:17]

Tim Bourquin: I got you, all right. So it's got to match up with the overall the longer term move. That makes a lot of sense. And you did mention in the beginning that news has to match up too. So I'm assuming you want to see a company with strong earnings that sort of thing even if this is a fantastic setup on a short term chart, if it's not a good company you won't take that trade?

Mark Minervini: Well, good companies and good stocks don't necessarily go hand in hand. So we're not looking to see if it's a good company, we're looking to see if it has the criteria that is consistent with big winning stocks. Now sometimes you'll have where there's negative earnings or there's some type of situation that's based on a drug approval. If the relative strength and the momentum is strong enough, we may disregard the fundamentals, but we will never disregard the technicals. If we had great fundamentals and the technicals aren't there, we won't take the trade. But we will sometimes take a trade if the technicals are strong enough even though the fundamentals aren't there.

Tim Bourquin: Okay. The stock that comes up a lot these past few weeks when you talk to traders about fundamentals versus technical seems to be Netflix all the time. I know that I'm putting you on the spot there with one particular stock, but any thoughts or ideas about whether that thing is going to find a bottom or keep going down?

Mark Minervini: Well, I don't know if it's going to find a bottom and keep going down or going up, but that would be a trade that would be completely off the table for us. Now, we were buying Netflix long, long time ago before it went up 600% or 700% and then quite recently we were talking about how it's a later stage situation. It kept going up, the fundamentals were still there, but once you see topping action very often the fundamentals don't lead and you'll see the stock will pop out and then later on, the negative earnings will plummet. Now we'll see that in stocks like F5, GMCR, Apple now maybe one of those stocks that's starting to roll over, Amazon, we've

got a lot of late stage situations here, CRM, these are all late stage situations that sometimes the stocks roll over before the fundamentals actually catch up.

Tim Bourquin: Will you trade IPO something early on like a Groupon?

Mark Minervini: Yeah, absolutely. I love IPOs, but we won't trade them off the IPO. We generally like to see some price action and then the stock emerge from a consolidation generally near or at a new high once it's consolidated at least for several weeks, three or four weeks after the IPO. We like to see it go through a period of digestion after the IPO comes.

Tim Bourquin: All right. And then finally, Mark, what advice do you have for new traders that are just starting out here or are still looking for their SEPA, their way to trade? Any advice for them?

Mark Minervini: Well, you need to find something that makes sense to you and something that matches your personality of course. Once you do find something that makes sense to you, you need to concentrate on mastering that and pretty much stick with that for a while. I mean maybe at some point you find out that's not for you and eventually you find what's for you, but you're never going to be good at anything if you don't give it enough time to become a master at it. You don't want to be a Jack-Of-All-Trades. Also, don't expect too much too fast. If you're new at it, it's going to take time. It takes a lot of time, but if you stick with it, the eventual payoff is well worth it. And you want to cut your losses. That's the number one rule is to cut your losses and to never ever average down. If the trade is going bad, don't keep adding to it. That may work occasionally, but when it doesn't work it's going to eventually blow up your entire account. Finally, you know, I would say spend a huge amount of time on conducting post analysis, looking at what you've done, what took place and looking for common denominators. Everybody's got common things that they do, good and bad. Find out what you're doing wrong over and over and then work out on fixing it.

Tim Bourquin: I like that last part especially, just evaluating and figuring out what's going wrong and not repeating it over and over again. That's definitely a good point. Well, Mark, if somebody wants to find out more about you and your company, where should they go?

Mark Minervini: Minervini.com.

Tim Bourquin: All right. Minervini.com, we will link to that in the transcripts for today's interview. Mark, thanks very much for your time today. I really appreciate you spending some time talking about your philosophy.

Mark Minervini: Great. Keep up the good work.