



Welcome to the Break Out Report!

Welcome to this, our premier edition of the Break Out Report. In this issue you'll find five profiles of stocks we will watch and perhaps buy over the weeks and months ahead.

Our approach to creating a portfolio is simple. We start by looking for stocks that have recently hit new highs. Next we filter these down to stocks that are growing earnings on both a yearly and quarterly basis.

Our objective is to emulate the phenomenal performance of Nicolas Darvas as recounted in his fascinating book, *How I Made \$2 million in the Stock Market*. Only we are being somewhat more modest in our expectations. While Darvas turned \$25,000 into \$2 million in two years, we are looking to turn \$50,000 into \$1 million in five years. That's still pretty phenomenal. And it goes against all conventional wisdom about the stock market.

Darvas's success stemmed from several principles which we, too, will put into practice. These principles are:

1. Test a stock first with a small position and build it up if your analysis is correct.
2. Tight stops on your initial position, looser stops as your position in a particular stock grows.
3. Focus on a few stocks. When Darvas's portfolio reached \$2.25 million, it was invested in just three stocks. We will have no more than ten at any time, and preferably fewer.

That's it. But it is undoubtedly easier said than done. How we do remains to be seen.

As noted on our website, we are using Performance Based Pricing for our newsletter. The first few issues are free. Once our portfolio is established, each monthly issue will be priced and sold individually based on how the portfolio performs compared to our benchmark, the NASDAQ. Sometimes our portfolio will be 100% in cash. If the NASDAQ declines while we are in cash, that is beating the benchmark. Sometimes it is prudent to be in cash rather than to be invested.

The Break Out Report uses two primary research tools. One is ChartSmart™, a brilliant piece of charting software with excellent search filter and charting capabilities. The other is Globeinvestor.com, our favorite website for market research. We will occasionally use Yahoo Finance as well. And of course, we use the Internet to find corporate websites to research companies.

We hope you enjoy our newsletter. Be sure to follow us on Twitter for updates. And do send feedback or ask questions. We welcome your queries.

Profile: Dollar Tree (DLTR)

<http://www.dollartreeinfo.com/>

The first Dollar Tree store opened in 1986 and today there are over 4000. All of them focus on selling bargain products for a dollar. In 2008, the company earned a place in the Fortune 500 and was the best performing Fortune 500 stock for the year.

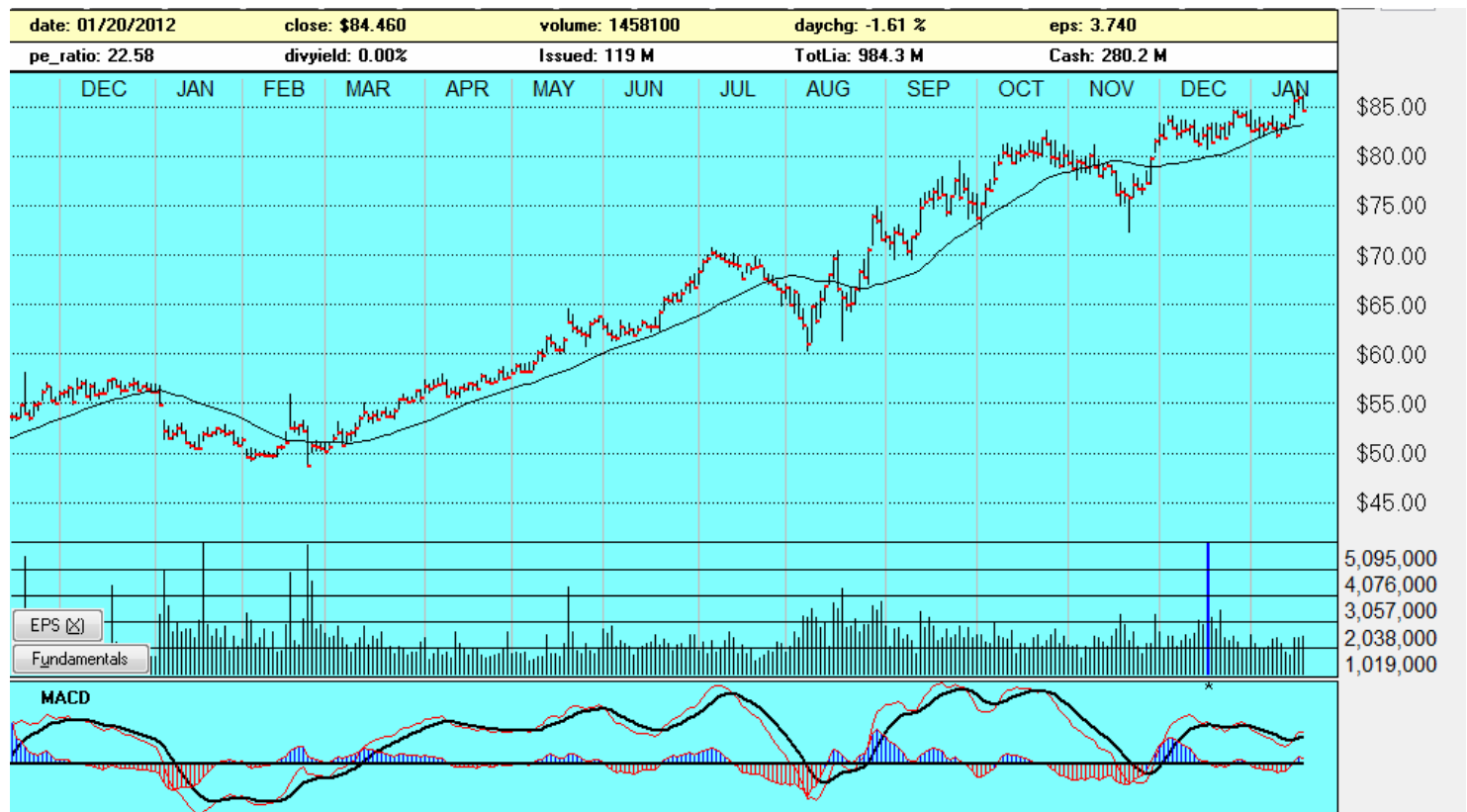
The stock has recently hit new highs and continues to grow. With a faltering economy and many people looking ways to save money, Dollar Tree has filled a market niche that continues to grow and will continue to grow until the economy is once again on a sound footing. Daily news on the economic woes in Europe and the heavy U.S. national debt indicate that this may be some time.

Quarterly Earnings Growth

| | 2011 | 2010 | % Change |
|--------|--------|--------|----------|
| Q3 EPS | \$0.73 | \$0.87 | 19.18% |

Annual Earnings Growth (Trailing Oct. 1)

| | 2008 | 2009 | 2010 | 2011 |
|------------|--------|--------|--------|--------|
| Annual EPS | \$1.59 | \$2.15 | \$2.84 | \$3.76 |
| % Change | | 35.2% | 32.1% | 32.40% |



Profile: HMS Holdings (HMSY)

<http://investor.hms.com/>

HMS Holdings operates through several subsidiaries including Health management Systems Inc. (HMS), AMG-SIU, Integriguard LLC, and Reimbursement Group Services Inc. (RGS). These companies supply cost management and fraud detection services to health care insurers and HMOs.

Quarterly Earnings Growth

| | 2010 | 2011 | % Change |
|---------------|--------|--------|----------|
| Q3 EPS | \$0.13 | \$0.17 | 30.77% |

Annual Earnings Growth (Trailing Sept. 1)

| | 2008 | 2009 | 2010 | 2011 |
|-------------------|--------|--------|--------|--------|
| Annual EPS | \$0.25 | \$0.36 | \$0.45 | \$0.59 |
| % Change | | 44.0% | 25.0% | 31.1% |



Profile: O'Reilly Automotive (ORLY)

<http://corporate.oreillyauto.com/>

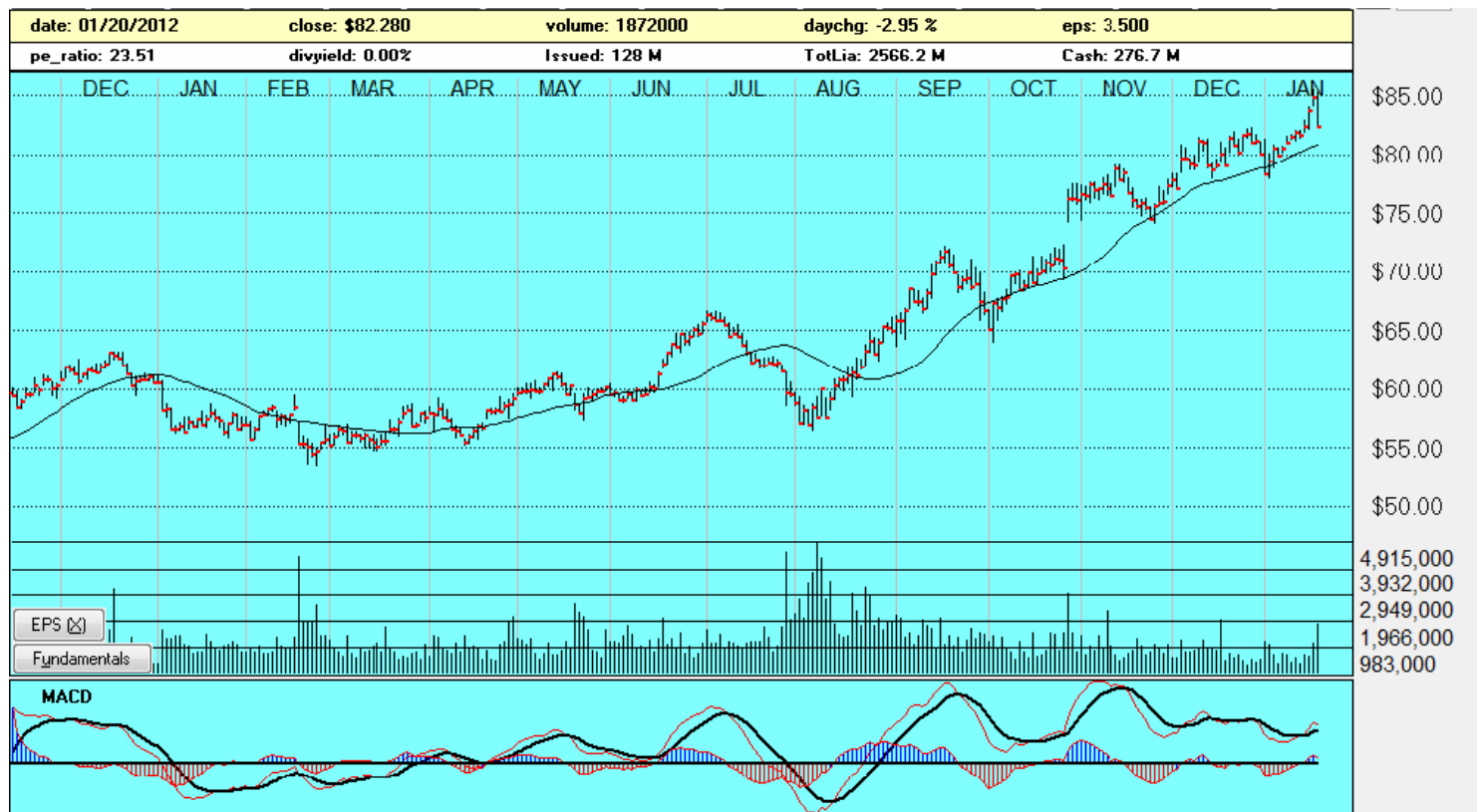
O'Reilly Automotive, operating as O'Reilly Auto Parts, is one of the leading auto parts supply companies in the United States. Starting with a single store in 1957, the company now has over 3600 stores across the country.

Quarterly Earnings Growth

| | 2010 | 2011 | % Change |
|---------------|--------|--------|----------|
| Q3 EPS | \$0.82 | \$1.10 | 34.15% |

Annual Earnings Growth (Trailing Sept. 1)

| | 2008 | 2009 | 2010 | 2011 |
|-------------------|--------|--------|--------|--------|
| Annual EPS | \$1.54 | \$2.06 | \$2.80 | \$3.57 |
| % Change | | 33.8% | 35.9% | 27.5% |



Profile: Panera Bread (PNRA)

<http://www.panerabread.com/>

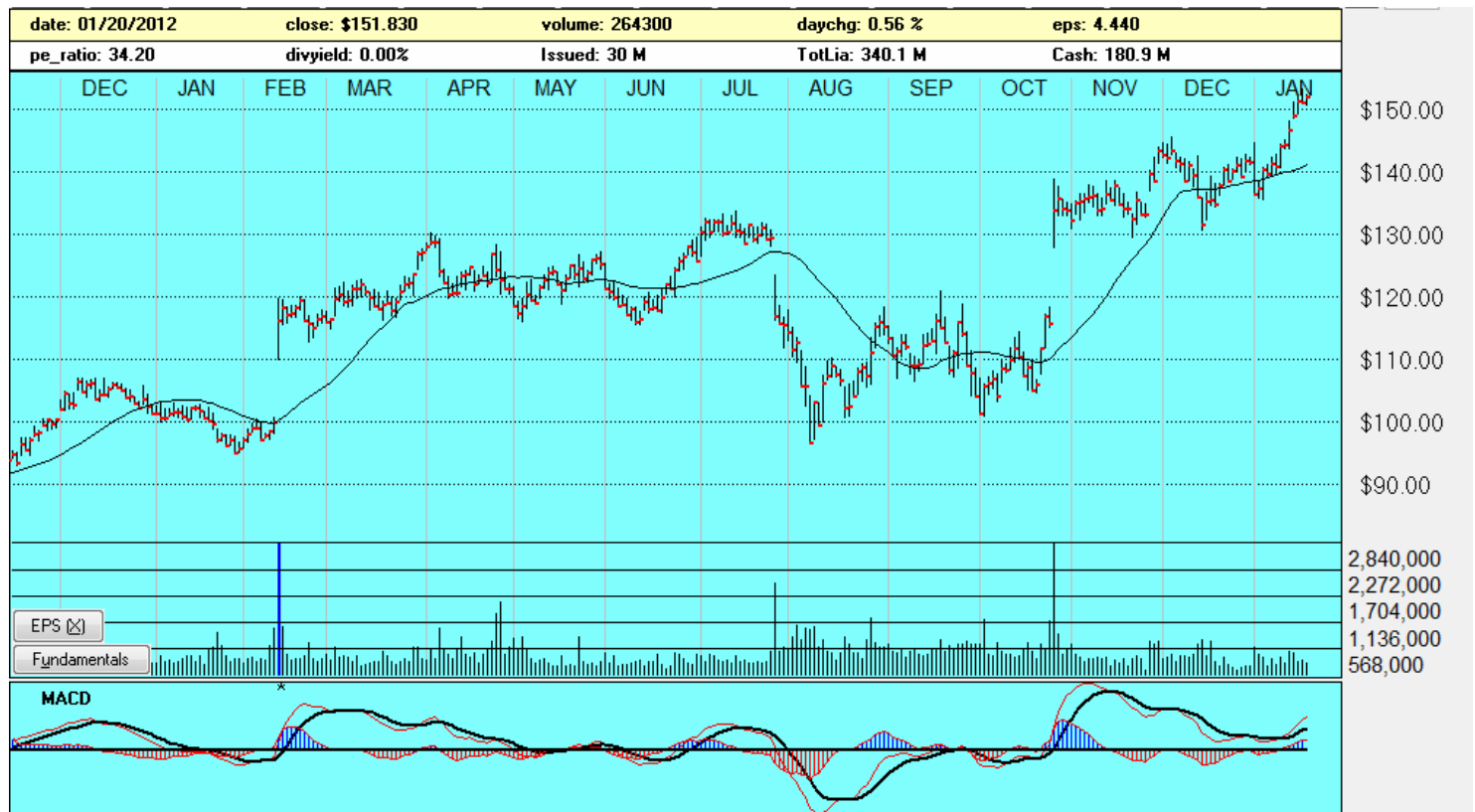
Founded in 1981 as Au Bon Pain Co. Inc., the company grew to dominate the bakery-cafe market on the East Coast by the 1990s. With the acquisition of St. Louis Bread in 1993, the company found its niche, divesting itself of its Au Bon Pain operations in 1999 and renaming itself as Panera Bread. Since then its stock has grown 13 fold, generating a billion dollars of stockholder value. Today it operates over 1500 bakery-cafes across 40 states and Ontario, Canada.

Quarterly Earnings Growth

| | 2010 | 2011 | % Change |
|---------------|--------|--------|----------|
| Q3 EPS | \$0.75 | \$0.97 | 29.33% |

Annual Earnings Growth (Trailing Sept. 1)

| | 2008 | 2009 | 2010 | 2011 |
|-------------------|--------|--------|--------|--------|
| Annual EPS | \$1.96 | \$2.67 | \$3.41 | \$4.49 |
| % Change | | 36.2% | 27.7% | 31.7% |



Profile: Apple Inc (AAPL)

<http://investor.apple.com/>

Apple needs no introduction. Think iPad, Mac, iPod, iTunes and you're thinking Apple. The big question mark is whether Apple will remain a solid growth company without Steve Jobs at the helm. 1st Quarter earnings report is out on Tuesday, Jan. 24th.

Quarterly Earnings Growth

| | 2010 | 2011 | % Change |
|---------------|--------|--------|----------|
| Q4 EPS | \$4.72 | \$7.14 | 51.27% |

Annual Earnings Growth (Trailing Sept. 1)

| | 2008 | 2009 | 2010 | 2011 |
|-------------------|--------|--------|---------|---------|
| Annual EPS | \$5.49 | \$9.23 | \$15.42 | \$28.05 |
| % Change | | 68.1% | 67.1% | 81.9% |



Our Portfolio

As we launch our portfolio, it is 100% in cash. Monday we will buy about \$2000 worth of each stock, testing the waters so to speak. And we will put a 5% stop on each. Since we cannot put stops on odd lots, we will buy in standard lots where we can and use informal stops where we can't. Follow us on Twitter to see the purchase data and notifications of stops and stop outs.

Next month's newsletter will be priced based on how our portfolio does against the NASDAQ in the next month. Currently the NASDAQ Index is at 2786.70

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