

Penny Stock Guide

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What are penny stocks?

There are different types of penny stocks that traders talk about. Some considered penny stocks as any stocks that are currently trading below \$5, some consider anything \$2 as penny stocks. These stocks are trading on NYSE, NASDAQ or AMEX. However, there is one more kind of penny stocks that traders talk about. They are called the Over The Counter penny stocks. These stocks are not listed under NYSE, NASDAQ or AMEX. The over the counter market, also known as OTCBB (Over The Counter Market Bulletin Board) which is a regulated quotation service.

At buyhotpennystocks.org, you will find both OTCBB penny stocks and the penny stocks that are trading on NASDAQ or NYSE. However, OTCBB data is end of day data where as the other kind is updated every 15 minutes during intraday trading. We list all penny stocks on our site and you have the ability to find penny stocks that are currently making moves, or about to make moves.

Penny Stock Risks

Penny stock is a big market where traders want to take advantage of. What many doesn't realize is the risky involve in it. True, you can double or triple your money in a month or even a few days, but it is also true that you could lose all your money in a few days. There are newbies who want to get rich overnight with penny stocks, chances are these newbies will likely to fail. In order to trade penny stocks successfully, you need to learn how to do research and spend a lot of time learning from others as well as through your trading experiences. It is highly advisable that you get mentor if you are completely new to trading. If you invest \$5,000 in a penny stock, you may lose it all in 1 day, but if you invest let's \$2,000 in an experience penny stock winner, you may be able to replicate his success and do well after you pay the price. You can do some research on your

own to find a mentor or try [Tim Skyes](#), the penny stock millionaire who made a fortune in penny stocks. [Click here](#) to watch a free video by Tim Skyes who will give you an introduction on how penny stocks work.

Penny Stock Pros and Cons

Pros – the pros of trading penny stocks is that you can get rich quickly if you trade the right penny stocks.

Cons – the cons of trading penny stocks is that you can go broke quickly when you buy the wrong penny stocks. Also, you will have to buy a larger amount of penny stocks to offset the bigger transaction cost of trading penny stocks. Some penny stocks are highly illiquid so that you may have to pay an even higher commission when you look for a buyer or seller. Therefore, you should always make sure the penny stock that you are trading with has enough daily trading volume to start with.

As you can see, there are more cons of trading penny stocks than pros. Therefore, you must learn how to trade penny stocks in order to make a good profit and learn from an experience trader would definitely help. The price you pay for mentors will get paid off fairly quickly when you invest in the right penny stocks as they can go up 100% overnight, and you may double your money with one single trade.

What drives Penny Stock Prices

Penny stocks can easily move in one direction with big percentage gains or losses. When the demand is greater than supply, you may see 100% or even 1000% gain in one single day. On the other hand, when the supply is greater than demand, you may see 100% or 1000% loss.

So what drives supply and demand? Why does the demand go up so quickly? There could be many factors and here are two of the main ones.

1. Good News – The company may report good news such as earnings report or if the company signs a new contract with a big client. The company could announce share buyback or insider buying. These are great news that will drive up the price of the penny stock. When a company gets new patents or reversal merger, the stock price will definitely go up as these are all good news for the company.
2. Stock Promoters – The penny stock price may go up tremendously if a company is pumping and dumping the stock. “pump-and-dump” is a term to describe an illegal trading strategies used by some big investors. A big investor or a group of investors have the ability to drive the price of a penny stock up or down because penny stocks are cheap and usually with low volumes. These investors first load shares of a penny stock and then promote the stock as a “hot stock” or “stock tip” to small players like you and me. After the small investors jump in, these big investors start to unload their shares, hence the penny stock will go back down. They make money by selling their shares to the small investors who loaded their shares base on their stock tips. This is called the pump and dump strategy. You must be really careful not fall into these traps.

Penny Stock Trading Strategies

Buy Trending Stocks

One strategy to use to trade penny stock is to buy low and sell high. You can look for trends of a penny stock and see if it is trending higher continuously. If it is, then buy it. Often times, a penny stock will form some kind of trend and it can last for a long time. You want to jump into these trends early so you can buy it at a low price and sell for a higher price at a later time. You should learn how to look at their charts and see if you can recognize winning patterns. If you are not familiar with technical analysis, I recommend you to study that and apply it to penny stock charts.

Buy ing on dips

Another strategy to use is buying on dip. A dip is when a stock drop and then starts to recover. A penny stock could drop or drag down by other similar penny stocks in the same industry. If a stock went down because of news unrelated to itself, there is a good chance that it will go back up. Hence, you can buy the stock on dip and get a good profit when the stock go up to its normal price.

Buy Low Market Caps

You can also buy low market caps companies. A company could be low caps for many reasons. One of the reasons is that the company is new or it is not known to a lot of investors. You can pick up quality penny stock companies in their early stage and when it starts to attract large investor interest, you will see your shares appreciated. You can then sell for a profit or continue to hold depends on the market condition. However, keep in mind this is a risky approach if you don't do it

right. The following conditions must be met in order for you to buy these companies.

1. You must research the company thoroughly and make sure the products or services it offers has market potential.
2. You should not blindly select any company with low caps and invest in it.
3. You should know the industry very well and hence you judge whether or not their products are hot.

Buy Stocks You Know

You can buy penny stocks in an industry where you are good at or know a lot about. For example, if you are IT guy, you may want to look for technology related stocks. If you are an accounting person, you may want to look for bank stocks or financial stocks. This way you can buy stocks with lower risk because you know what they are selling and know the potential of their products and services. If you buy stocks in an industry where you know nothing about, you will have to do a lot more research and hence spend a lot more time. Also, it is easier for you to pick penny stock winners in an industry that you know a lot about.

Buy High Volume Penny Stocks

You can buy penny stocks with high volume. These penny stocks are generally safer than the ones with low volume because they are a little harder for one investor to manipulate the stock price. Also, usually high volume stock means there are more investors interested in buying the stock so it is a good thing because you can buy and sell them more easily. If you buy a penny stock with low volume, sometimes it is hard to find a buyer or a seller at the price you set,

so you are force to raise the price when you buy and lower the price when you want to sell which is something you don't want to see.

Follow Your Rules

Penny stocks are risky and if you want long term success trading penny stock, you should follow your trading rules all the time.

Stop Loss

You should set stop loss for every penny stock you trade. I recommend to set somewhere around 20% so in case you are wrong on a stock, you still have money to invest for the next one. Also, you don't want to set your stop loss too tight as a penny stock can easily go down and hit your stop loss frequently. You don't want to get stop out only to watch it go back up after you stop loss is hit.

Use Limit And Stop Loss Orders

You should always use stop loss orders and limit orders to buy and sell stocks. If you want to buy a stock at \$0.25, you want to set the limit order so that you can get it for that price. The reason you don't want to buy with market order is a penny stock can move up quickly and by the time you execute your order, you may buy it for \$0.3 or even higher. This is not what you wanted to see.

Make your own decisions

You should make your own decisions whenever you buy or sell a penny stock. You should not listen to gurus or anybody else. You can get trading ideas from them, but you should then do your own research and trade independently.

Don't chase a stock

Never try to chase a stock. If a penny stock jump 100% or more in a day, don't chase it, let it go. True, the penny stock may continue to go up, but there is a good chance that it will go back down. Remember, there are always better penny stocks out there that you can trade. The penny stock will never run away.

Learn from your mistake

If you make a mistake once, try not to make the same mistake twice. Instead, learn from it.

Keep a trading journal

Keep a trading journal with all your buys and sells and study them. You should also study the market everyday and try to learn how it acts. The more you know, the better you trade.

Do not trade money for emergency use

Never trade with the money that you need for emergency use. If you need the money for retirement, don't trade it. If you need the money for your kids to go to college, don't trade it. If you need the money to pay your bills, don't trade it. You can only trade with the money you can afford to lose.

Penny Stock Broker

Are you ready to trade penny stocks? If you do, then let's get started. Before you can buy and sell penny stocks, you need to open an account with a stock broker. I recommend using Zecco. They offer cheap commissions for trading penny stocks.

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