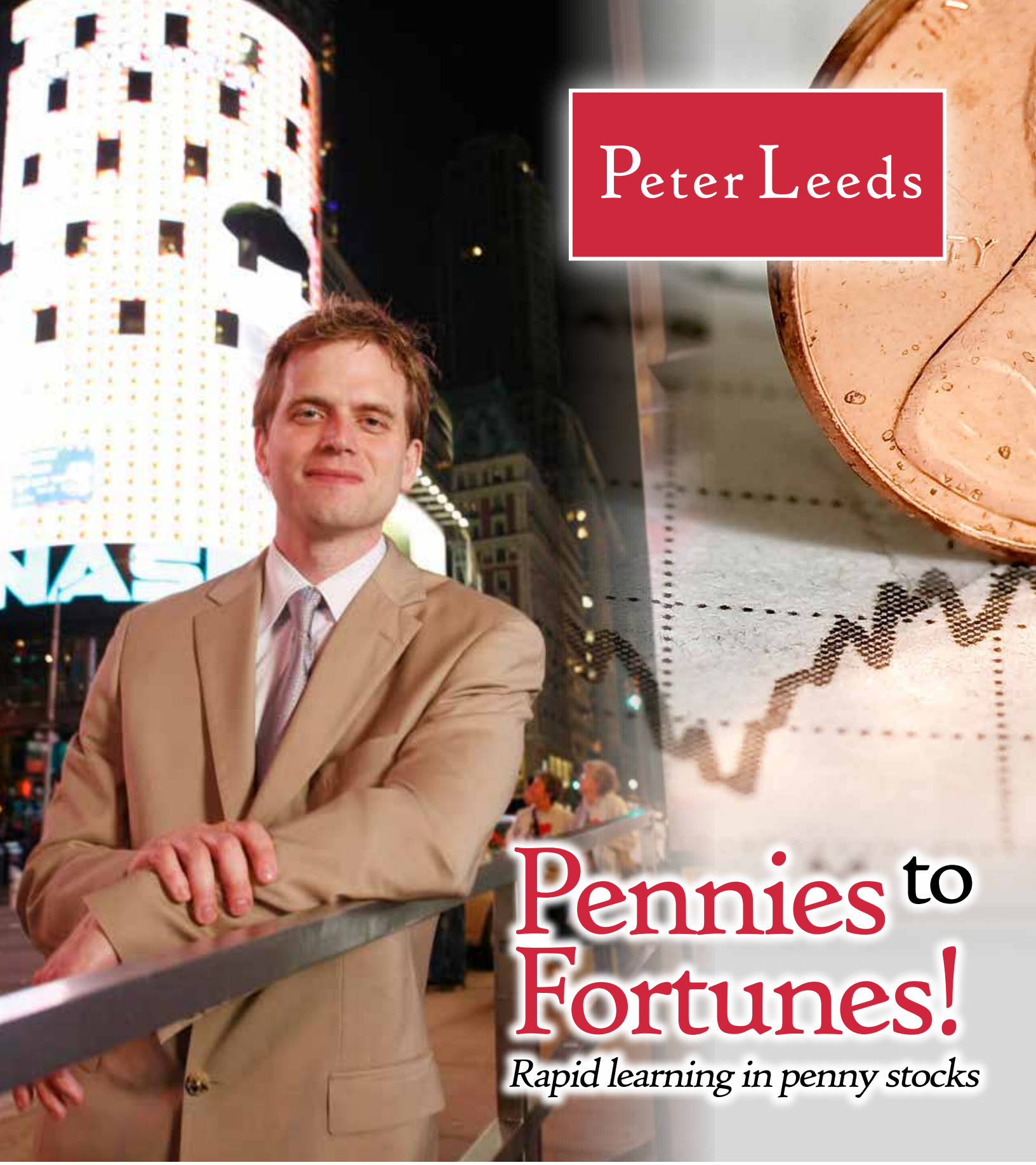


Peter Leeds

Pennies to Fortunes!

Rapid learning in penny stocks



Warning!

Scams and misleading information abound in the penny stock markets. It is out of control, and has reached epidemic proportions. Dishonesty is costing you, your friends, your family, your coworkers.

You have the power to help them, and yourself. Spread the word. Send *Pennies to Fortunes* to three or four others.

This e-book is meant to protect people by being shared. We are counting on you!

Exciting. Risky. Profitable.
Welcome to the world of penny stocks!

We're going to tell you what you need to know, without a lot of extra conversation. Your penny stock learning curve is about to increase dramatically. So, let's dive right in!

Part One:
> The 3 Don'ts of Penny Stocks

The 3 most important things you need to know about penny stocks.

Part Two:
> Learning Lines

You might be surprised by these important penny stock truths.

Part Three:
> Penny Stock Secrets

Never trade the same again!

Part Four:
> Most Important Penny Stock Commentaries

In an ocean of information, these articles, press releases, blog entries, and reports stand out, and will make you a superior penny stock trader.



Part One:
>The 3 Don't of Penny Stocks

The vast majority of all money lost in penny stocks is a direct result of violating The 3 Don'ts. Avoid them at all costs, no matter how tempting.

Here's what you need to know:

1. NEVER follow free stock reports
2. NEVER give out your e-mail to a free stock pick site
3. NEVER buy pink sheet penny stocks

Ignore The 3 Don'ts of Penny Stocks at your own peril! If you need explanation on the above points, you can learn more about the reasons from the video links below.

Why free stock reports will cost you:

Why are they giving out free stock picks? What's their angle? How can they afford to do this at all?
Watch this video to be frightened.

video link: http://www.youtube.com/watch?v=eXN331EBQUM

Why giving out your e-mail will cost you:

The site looks legit. I'm sure giving them my e-mail address won't come back to haunt me... will it?
You are darn right it will, and the video below will explain why.

video link: http://www.youtube.com/watch?v=rMcH04sgQH8

How Pink Sheet companies could leave you penniless:

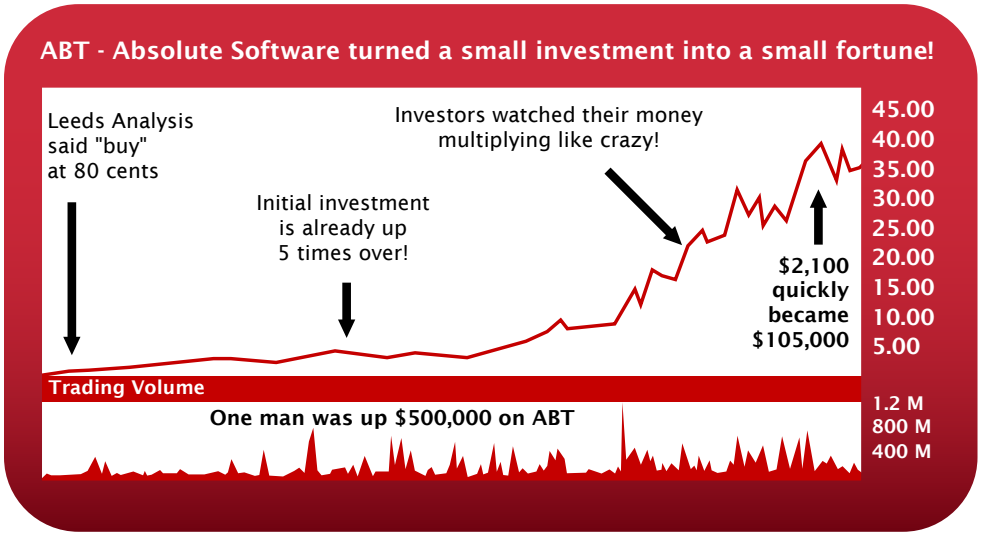
Pink sheets is a real stock market, right? Wrong. If a company is listed, it must be a safe and functioning investment, right? Wrong. Click the video link to find out the truth about Pink Sheets.

video link: http://www.youtube.com/watch?v=QcWkut9Lpzk

Penny stocks are those which trade for $5 per share or less.

Penny stocks may not be for you. If they are, you should invest only in high quality companies that have:

- strong fundamentals
- compelling financial ratios
- attractive value at current buy price
- competitive advantages
- high barriers to entry in their sector
- strong management teams
- patents on their technology
- growing market share
- increasing revenues
- decreasing (or minimal) debt



Find penny stocks like this and you can profit dramatically.

So, where do you find such companies?

There are two ways:

1. do your own research and due diligence. It takes a tremendous amount of work to do it properly, but it is well worth it.
2. get selections and analysis done by professional penny stock analysts.

WARNING!

There are many penny stock newsletters, but the vast, vast majority get paid by the companies they write about. Their motivation is to drive the price up TEMPORARILY, to make money off you before they let the shares crash back down to earth.

Only trust those sites with a 100% Unbiased Guarantee. This means that they don't take compensation for their research. Their picks are in your best interest.



Part Two:
>Learning Lines

We'll introduce you to a few concepts here which you may not know about, and that are intended to significantly improve your trading results in penny stocks. We'll treat each concept individually, but they should all become part of your skill set.

This section, Learning Lines, covers some very important, yet more basic ideas. After that, in section three, we'll reveal many advanced strategies which should empower your penny stock investment decisions even more.

Here is what you'll discover within the Learning Lines section:

- Averaging Down, and Why to Avoid It
- Sick Stock Market Math Could Bankrupt You
- Reverse Splits, and How They Trick You
- Sell! Sell! Sell!
- They're Waiting for Your Call

Averaging Down, and Why to Avoid It

Most less experienced investors do this. They buy a stock, the price drops, so they buy more shares at the lower level. Sure, by averaging down your average price per share is lower, but you may be throwing good money after bad. To make sure you understand the concept, here is an example:

› You buy 1,000 shares of DUD at $1. That's a $1,000 purchase.
› DUD drops to $0.50 per share.
› You buy 1,000 more at $0.50, for a cost of $500.
› You now have 2,000 shares, trading at $0.50, for a total cost of $1,500.
› Your average price per share is therefore $0.75.

In theory, people do this because they are bringing down their average share purchase price. In our example, the shares are only down 25 cents on average (although on a bigger investment), rather than being down 50 cents.

However, what they are really doing is trying to minimize the mistake they've already made with their original purchase.

Often the stock then falls even further. That's when it starts to get really ugly. In fact, our experience with thousands of subscribers demonstrates that averaging down is a mistake most of the time.

First of all, the investor has called it wrong in the first place, and therefore is just as likely to make a mistake again. As well, the company is in a downward slide. By aggressively averaging down, traders are simply pumping more and more money into a sinking ship. Unless that company does reverse and bounce back, which they very often don't, then the investor has put way too much money into a bad stock.

Newer investors, as well as more impatient traders, often get wiped out by averaging down. The majority of the time, this trading approach does not work out well.

One of the most important secrets to being a great trader/investor is the preservation of capital. In other words, limit potential losses. Averaging down flies in the face of this rule, and usually multiplies your pain.

When it comes to averaging down, don't do it. ■

Sick Stock Market Math, and How It Could Bankrupt You

Trivia time: You own a stock that drops half (50%) in value. How much does it have to increase to return to it's original price?

Unfortunately, the answer is 100%. You lose half your money when it drops, but then you need to double your money just to get back where you started. Cruel, but true.

It gets even more ugly. What if, heaven forbid, your shares drop 75% in value. To pop back up to where the shares were in the first place, they now need an increase of 300%.

The moral of the story is that you can not afford to lose money! Perhaps this is a good time to remind you of The 3 Don'ts of Penny Stocks.

1. NEVER follow free stock reports
2. NEVER give out your e-mail to a free stock pick site
3. NEVER buy pink sheet penny stocks

By ignoring The 3 Don'ts of Penny Stocks, you will almost certainly come face to face with the cold truth of sick stock market math. ■



Reverse Splits, and How They Trick You

Reverse splits fool most investors, and potentially you too. They are much more sneaky than you realize.

First we'll provide background on stock splits and reverse splits, then we'll reveal the true dangers to you and your investment dollars.

You probably already know about stock splits.

The company is doing well, the share price is rising, and they want to increase the number of shares trading on the market. They enact a split, whereby for every share of their stock you own, it becomes 2 shares (at half the price each), or 3 shares (at one third of the share price), or 5 shares (at one fifth...) –well, you get the idea.

A 2 for 1 split on a $60 stock will leave you with two shares at $30.

Stock splits are usually a great sign that a company is doing well. Generally when the split is first announced, the price goes up a bit. Then, immediately after the split is enacted, the shares often increase in value even more.

For example, shares trading at $100 announce an upcoming 2 for 1 split. The stock jumps up to $110. The split is enacted, and for each share you originally held, you end up with 2 shares at $55 each. Those share then often trade higher in the short term, perhaps to $60 in our example. Each $100 worth of the company you had (1 share at $100) is now worth $120 (2 shares at $60).

Simple, right?

However, the opposite to a stock split is called a reverse split... and it is evil.

A reverse split is a way for a company to increase their price per share, but generally has negative effects. It is almost always a sign of a struggling company, on the way down.

Reasons for reverse splits include maintaining a minimum price to keep from getting booted off a stock exchange, increasing share price to up-list to a larger exchange, or making the company seem more legitimate.

As an example, a 1 for 10 reverse would work like this –for every 10 shares of DUD you have, it becomes only 1 share. The theory is that your one share is now worth ten times as much.

Nice theory. Unfortunately that's not what happens.

Generally when a company announces a reverse split, it is letting the world know that they're in trouble. That doesn't mean they'll never turn things around, it just means that they *probably* won't.

So, that's the way reverse splits work. Now let's delve a little deeper, and see how you can really be fooled by some of these reverses.

The problem occurs when people aren't aware of the reverse.

Consider this conversation: "Look at this company, DUD! They've been on a tear. Only last year they were trading at 25 cents, but now there's at $2. They're really going places! I think I should buy some."
What our unnamed friend doesn't realize is that even at $2, that original 25 cents is probably now worth only 10 cents. Meanwhile, for all the shares investors used to have, they now own only a fraction of as many.

In fact, reverse splits are pretty close to being a legitimate price manipulation tool. Company's shares who should be trading at a few nickels can position themselves as more legitimate $5 stocks, and the vast majority of investors will never take the time to realize the truth.

They also are not aware that DUD has nearly completely decimated their original shareholder's investments thus far, because the current $2.74 share price (for example) would actually need to be closer to $125.30, for it to be at breakeven for earlier investors.

Of course, if everyone did proper due diligence, they'd find out about all the splits and reverse splits. But who are we kidding... nobody does proper due diligence. ■



Sell! Sell! Sell!

Your profits on any trade are made the moment you buy. Getting a great value in the first place sets you up for every penny you are going to make. Selling is just an administrative step to close the deal.

Not everyone agrees with this theory, but it is true.

Despite that, you still need to know a few pointers to ensure you get your top price when you sell your penny stocks (which hopefully aren't at pennies anymore!)



• Lock in Profits:

Less experienced investors seem to think they have to sell all their shares at once. However, a better strategy often involves selling a portion, and letting the rest ride for a little while longer. Depending on the value of your holdings, you may want to sell half, or one quarter, or maybe only 10%.

• No Regrets:

So often people lament at selling too early. Believe me, I've walked away from six figure profits in my day by selling prematurely. I bought shares in one company at under $1, thought I was the king by cashing out for an average price of just under $8, then watched as it soared towards $40. Despite making nearly 10 times my money, it still feels like a major loss.

It's the fear of missing the big gains which keeps people invested for too long, and afraid to pull the sell trigger. That, and greed.

• The Rules Then Become This:

1. never kick yourself for missed profits from selling too early. It happens, but at very least it shows you that you're on the right track. Now go find the next big winner, just like you did with the last one.
2. Scale out. Maybe don't sell all your shares if you think it still might go higher. Some traders prefer to cash out a piece at a time.

• Sustainability of Price Increases:

If a penny stock leaps up in price very dramatically, it may be likely to come back down to earth just as quickly. Slower measured price gains over longer time periods are much more likely to be sustainable.

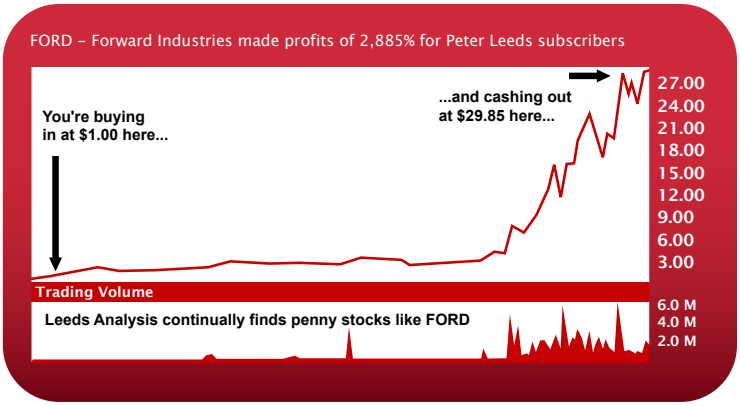
Therefore, you can use the penny stock's price action to give you clues of how quickly, if at all, the investment will drop off.

• Failure to See the Life-Changer:

What is the true power in penny stocks? Massive, quick, and stunning price gains.

Sure, with most penny stocks, you'd be doing well to take 30% and 50% profits. In fact, with many penny stocks, wise traders are the ones who limit their losses to 25%, let alone make any money.

However, when you get into deep analysis, and put in all the work and expertise and experience to pick out the truly great opportunities, you might be looking for something more massive. Something that will go off the charts, and pay your bills, and buy your boat, and set up your retirement. You might be looking for "the life-changer."



There are lots of penny stocks which traded from under $1 all the way up to above $50 per share. Lots of people were invested at the $1 level. Guess what many of them did as the shares approached and broke through $2. They sold.

As the shares kept climbing towards $4, even more people sold. By the time the shares crested above $10, forget about it. The only original investors that were still engaged were almost certainly management, and perhaps professional institutional investors (venture capitalists, the funding investment bankers, etc...)

However, if you figured out early that you were invested in a life-changer, then maybe you could be one of those who rode this single penny stock into retirement and wealth. So, here's how you distinguish between a nice profit play versus a true life-changer.

>>> First:

Identify if this company has unlimited upside potential. If they already own 90% of a market that is shrinking or stagnant, then the upside is very limited. On the other hand, if they own a small percentage of a new market that is going to balloon in size in the coming years, then they may have tremendous growth ahead of them.

Are they growing rapidly in a sector with high barriers to entry for new competition? Is their growth accelerating faster than their peers? Do they have patents which protect their highly important (and in-use) technologies? If you can answer yes to these questions, then that is a great sign.



>>> Second:
Check in on the company on an ongoing basis. Call them, re-analyze them, follow their financial reports and news releases. As they grow, and their share price keeps climbing higher, are their underlying results justifying the stock's performance?

Are their price increases sudden and dramatic (and therefore less sustainable)? Or are their shares increasing gradually and in a measured advance (and therefore more sustainable).

Ask yourself if you just discovered them today for the first time, would they still be a compelling investment to you? Based on new events, does your original reasoning for investing in them in the first place still apply?

Also, keep a close eye on trading volume. As the shares trade higher, and the company becomes more widely followed, there should be an increase in activity. Daily volumes will increase and stay higher.

>>> Third:
If you are thinking of taking some profits, even if you believe the shares will go higher from here, it might be worth taking some profits off the table. Rather than cashing out your whole position, it could make sense to sell part, and let the rest ride long term. (Think of those who sold Microsoft after it quintupled in price, only to watch it multiply a couple hundred times more).

Of course, your trading decisions must be your own. Decide for yourself how and when to take profits (and losses), and take responsibility for those decisions. ■

Part Three: >Penny Stock Secrets

They're Waiting for Your Call

To be publicly traded, one of the requirements (among others) is for the company to have an investor relations person or department. Their responsibility is to answer the questions of prospective and current investors.

It is their job, a duty to which they are bound, and they generally enjoy doing it.

The funny thing is that investors never take advantage of this situation. They never call. I'm not sure why, but you'll almost never meet someone who has phoned the investor relations contact of a company to ask questions.

It is easy, inexpensive, and will do more to supercharge your trading results than just about any amount of online research. A brief 15 minute phone conversation could mean the difference of thousands of dollars to you.

Although no one ever seems to take my advice about this topic, I will stress it again anyway –I highly suggest that you should call the companies and ask questions. Do this for stocks you are interested in buying, and those that you already own.

In fact, call them again every three months. It is your right, and they are getting paid to answer your questions.

Here are some suggestions of what you may want to ask:

- What is the outlook for the company in the next six months? Next three years?
- Who do you consider to be the company's competitors?
- What is the outlook for the industry?
- What will be the short term price drivers (meaning what events will move the share price)? What about long term price drivers?
- Do you anticipate the head count increasing or decreasing going forward?
- Do you anticipate any mergers or acquisitions involving this company in the next couple of years?
- What guidance can you provide about revenues, expenses, earnings?

What you'll generally get is a lengthy answer with lots of details, from even the shortest question. That's exactly what you want. Let them talk, and pay attention to what they are *really* saying. Try to glean hidden gems of information that you would never have gotten from their press releases or web site.

Be polite. Take notes. Get their name and tell them you will call back with further questions if you have any. Thank them for their time.

Calling the company will generally result in much improved clarity about the underlying investment, and help you make far superior investment decisions.

Each section you read here should significantly improve your trading results. This information is timeless, effective, and certainly not widely known. Use it to your advantage.

- Buy the Rumor, Sell the Fact
- Investor Sentiment Is Trying to Fool You
- Limit Your Losses, Seriously
- The Scales of Investor Justice
- Trading Windows



Buy the Rumor, Sell the Fact

There is an expression in the stock market that says, "buy the rumor, sell the fact." It's a lesson that all new traders should learn, because it will help them profit, while avoiding selling too late.

The idea is simple. When there's a rumor about an upcoming event for a company, investors hear it through the grapevine, and buy into the shares. This pushes share prices higher. Once the event itself is actually realized, that upward buying pressure stops, and without it the stock drops in value.

For example, ABC Inc. is likely to get FDA approval for their new drug. The upcoming ruling is widely expected, and many investors buy in, speculating that the announcement will send the shares skyward. This starts pushing the stock up.

Eventually, once the actually FDA approval comes out, the shares don't spike much higher since the speculators had already run the share price up so much. Now that the announcement is out, many of those same speculators start cashing out, putting a great deal of selling pressure on the stock.

The following events are some examples of what might drive buying interest:

- impending patent award
- potential dismissal of major lawsuit against them
- expected strong financial results
- new major customer or contract win widely anticipated
- upcoming release of a new version of their technology
- anticipated FDA clearance

Any such widely known and expected event would gradually push share prices higher. This would have steam until, and only until, the expected event itself finally came to pass. For this effect to actually occur, the rumor or event needs to be:

- widely known
- growing in probability
- noteworthy (potential for a major impact)
- nearing the date it's expected to occur

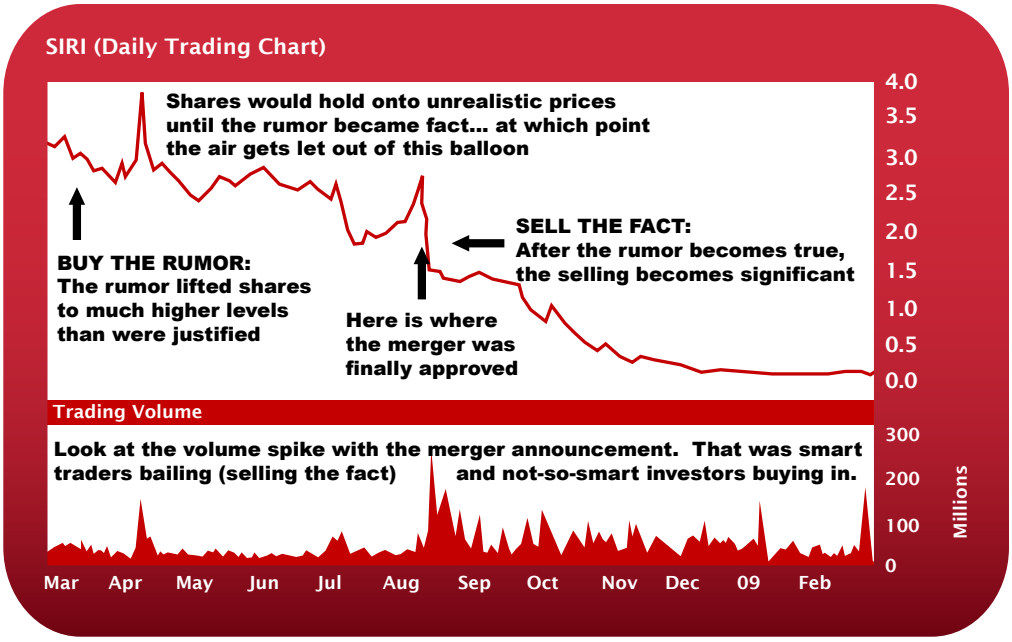
The merger between the satellite radio companies XM and Sirius is a good example. There was unprecedented discussion in the media, and among the investment community, about the combination of the two companies. It was a noteworthy event since it would help both companies survive, and was expected to have major benefits such as millions in cost savings. The CEO of Sirius, Mel Karmazin, made frequent updates in press releases about the progress of the merger talks, and provided dates of when he expected that the regulatory bodies would rule on the matter.

The result was a widely followed rumor which excited investors. Traders held shares, or bought more, waiting for the good news of a merger to be announced. The expectation was that shares of both companies would spike upon any announcement.

Shares were trading as high as $2.75 the day before the merger announcement.
However, on July 25, 2008 when the merger was finally approved, the shares started falling.

Short term traders had been anxiously waiting for the announcement, so they could make a quick profit by selling into the news. Long term investors looked to the merger as the beginning of a long, sustained uptrend in price. Both were surprised as the merger announcement actually set off a downward slide for the shares. The trading price of the merged company sunk all the way down from it's post merger high of $2.75, to 11 cents within 5 months.

What was the difference in Sirius at $2.75 and Sirius at 11 cents soon after? Nothing, besides the long awaited and sought after merger, which was supposed to take the satellite radio companies to the next level. I don't think they expected the next level to be a share price that was 95% lower.



At the time of the merger announcement, there weren't any other major events in the near future that might help spike the prices. Speculators and long term shareholders alike didn't have much to look forward to, now that the merger announcement had been made.

Overall, the stock suddenly didn't seem as exciting. The amount of optimistic speculation in the shares took a big hit, and investors were now forced to look at the company's fundamentals.

The merger caused shares of Sirius and XM, which until now had been treated by investors as speculative plays, to be traded based on their operational results. In other words, the post-merger world didn't have any more speculative optimism. Instead, investors now started to look at the very ugly reality of the debt ridden financials.

With satellite radio, everyone was buying the rumor. The smart money knew to sell the fact.

"Buy the rumor, sell the fact," plays out again and again on the markets. It's certainly not the exception, but rather the rule. Keeping this in mind will help you identify penny stocks that may trend upward, allowing you to ride the shares up for profits. Just make sure to escape your position before they come crashing back down to earth. ■



Investor Sentiment Is Trying to Fool You

The current investor sentiment refers to how optimistic (or pessimistic) the majority of investors are feeling. In other words, what beliefs and expectations do the majority of people have at the current time.

If everyone thinks the stock market is about to crash, that represents highly negative investor sentiment. If the world seems to be stampeding to throw their money into stocks, and even your great-grandmother is phoning you with her latest stock pick (similar to the environment when the Dot-Com bubble was being inflated), then that's highly optimistic sentiment.

Now, here's the important part. Investor sentiment is a contrarian indicator. The greater the percentage of people that are optimistic, and the more optimistic those people are, the more likely the market will drop or crash. If everybody expects shares in ABC Inc. to go up, they are highly likely to go down. If 90% of investors believe that XYZ Corp. shares are going to collapse, then those same shares are probably going to go higher.

This truth occurs in the stock market for 2 reasons:

1. most investors are usually wrong (they buy at tops and sell at bottoms)
2. people act on their beliefs

The second point, that people act on their beliefs, results in traders buying into stocks they expect to go higher, and that buying pressure pushes the shares further and further up the charts.

When everybody who thinks the stock will increase in price has bought, and that buying pressure disappears, the shares are usually overvalued and due for a fall.

The same holds true in reverse. When the stock market crashes, and everybody is running for the exits, the mob mentality selling drives the prices lower. Eventually the last panicking investor has sold. At that point, anyone you talk to will have a highly negative outlook about investments. That's when negative sentiment has reached it's peak, and therefore traders are most likely to be wrong.

There aren't any more sellers, because everyone's sold, but they still believe there is even more downside. Really all that's left are highly undervalued companies that won't go any lower, and are about to increase in price.

Use investor sentiment to your advantage. It takes a lot of courage to buy when everyone else is selling, but the harder it becomes for you, the more likely that you are making the right move. ■

Limit Your Losses, Seriously

As soon as you get involved with any type of investment, you are opening yourself up to losses and risk. Those issues will always be there, and to believe otherwise is delusional.

How you limit losses and protect your capital really depends on your personal situation, experience level, strategy and tactics. Some people are playing with a thousand dollars, and don't care if they lose it. They just want the excitement of getting involved with penny stocks, and to take a chance for that investment to become worth much more.

However, there are ways to limit and manage your downside. Here is a deeper look at some of them.

- If you can't afford to lose your investment, your strategy for limiting losses should be "investment abstinence!" Don't invest at all.
- Overall, the very best way to limit losses is never purchase any stock until you feel absolutely comfortable with it. Know why you are investing in this company. Understand where you expect the share price to go, and how fast. Be clear about why the company is going to do well. Know at what point you want to take your profits. Take full responsibility for whatever happens, and don't buy unless you feel very confident and comfortable with your decision.
- Avoid emotional stress. Don't fall in love with a company, it's just business. If you find yourself losing sleep, trading when you're angry, or stressing out about a stock, then it's not the investment for you.
- Get strong, fundamentally solid penny stocks in the first place by doing Leeds Analysis. Finding the best companies and paying bargain prices for them is one of the main steps to limiting your losses.
- Paper trading will help you learn the ropes, while discovering how to dodge some of the easily avoidable mistakes. Practice trading real stocks on paper, using imaginary money. See how you do. Learn. Improve.
- Diversification is a great way to limit your losses. You don't have all your eggs in one basket. You can diversify by industry, by market, geography, market cap or even the amounts you put per stock. For example, if you had 10 different investments, perhaps they would be from five or six or seven different industry groups, from three different continents, and ten different market capitalizations.



- Use stop losses. You may find that your broker, especially if you are trading penny stocks, is not very friendly about allowing stop losses. In such a case, simply keep track of your intended stop loss in your head, so that if your stock falls to a certain point, no matter what, you liquidate your position. This prevents further downside for an investment that may be heading towards zero.

- Look for penny stocks with good trading volume. This will help you limit your losses, since you can liquidate your position easily and quickly if required. Good trading volume also demonstrates that the company is more widely followed, and therefore more likely to have strong investor interest.

- Take some profit off the table over time. That way you are proactively limiting any potential losses. When a penny stock that doubles in price, some newer traders tend to take some of their profit, then let the rest ride.

- Limit orders (rather than market orders) are an excellent way to curtail your losses. If you are buying with a market order, you wind up getting the best available sell price at that moment. However, especially when dealing with thinly traded penny stocks, market orders can result in traders paying more than they expected. The very act of buying with a market order drives the price higher. On the other hand, limit orders allow you to choose the maximum price you will pay for the shares, so there will be no surprises.

- Trade on the better markets. There are a lot of problems with the Pink Sheets market. You'll generally get better companies, with better reporting requirements, enforcement, regulations, and trading volume, on stock exchanges like the OTC-BB (Over the Counter Bulletin Board), NASDAQ, AMEX, NYSE, and the Canadian markets like the TMX, and the TMX venture Exchange. ■

The Scales of Investor Justice

In general, less experienced investors tend to buy or sell their entire position in a stock all at once. They want 10,000 shares, so they buy 10,000 shares with one single order. They decide to dump a company, so they dump their entire holdings in one shot.

More experienced traders know there is a better way. Specifically, they 'scale in' to penny stocks they want to own, and 'scale out' when the time comes to sell. Often, they invest in 2 or 3 or even 6 chunks, and these buys would happen over days, or weeks, or months.

For example, let's say you have $6,000 and want to invest it into ABC Company. Instead of putting $6,000 in immediately, you only invest $2,000 at first. If that stock starts going higher, the two thousand dollars is in a profit position. If it starts going lower, at least you've saved the loss that the other $4,000 would have taken. At that point, if you still believe in the investment, you could average down (although I am not a fan of averaging down) by buying more shares with the $4,000 that is still on the sidelines.

This strategy has even been employed in turn of the century military tactics. A good general always holds back some of his troops, and can then respond based on the results of the first attack.

By scaling in, you stay dynamic and keep your options open. It also buys you time. Time to think about the decision you made, and maybe rethink what you are doing with the rest of the money. It also allows you to watch as other events occur, while still having the option open to buy more shares.

For example, you might scale in with a buy in February and come back with a secondary purchase in July, and a third in September. In between each of these purchases, you have time to assess the situation and see new events that occur with the company, with the competitors, and with the overall market and industry. You will simply be more informed.

It also keeps your money on the sidelines so that you're open to other ideas. For example, say you were going to put $6,000 in ABC company, but instead you decided to scale in, and you held $4,000 back. Then perhaps another opportunity comes to light, or maybe your kid needs braces so you use the money for the orthodontist. The downside to Scaling In is that your broker commissions will be higher, but that's not really a big deal since most stock brokers charge such low commissions.

When you're selling shares, you may want to scale out. It's not usually a good idea to dump all your shares onto the market all at once, unless you only have a very small position in the company. With thinly traded penny stocks, unloading even 25,000 shares could push the stock price down while you are selling.

A lot of people use the very common, and somewhat effective strategy, of selling half of a position if their investment doubles. This gives you back your original investment, and then the idea is to let the other half ride. I find it more effective to exit and enter positions in three, four, or even eight different trades, as long as you are doing it with enough money each purchase to make it worthwhile. I usually space these purchases out over months, and sometimes years.

It's also a good idea to scale in or scale out surrounding an event. For example, a company is going to release their financial results, and you expect the numbers to be strong. You might want to buy shares with part of your money before the release of the financials. Then you keep part on the sidelines, until you see the actual results. At that point you can decide if you want to put the rest of the money in, or perhaps now you've changed your mind. ■



Trading Windows

The majority of penny stock gains happen in very short timeframes. You'll see a stock sit within a tight range for months or years, then watch as it multiplies several times in value over the course of a few weeks. This also applies to the major price drops, which tend to happen over short time frames.

This is especially true when a penny stock is reacting to significant news. Even the most volatile shares may have a trading range that varies 30% to 75% from high to low, but when that news breaks, the price of the shares also break out of the range and soar much higher (or much lower) within a matter of days... or hours!

To make the most of your money, you should try to anticipate the gains that these windows provide, rather than holding the shares over the longer term.

There are a few ways that we've identified to increase your chances of holding shares just before they make their moves.

1. Type of Company

Different penny stocks are prone to different trading activity based on the industry or sector they're involved in, or the type of business they operate.

For example, retail stores have a certain predictability of earnings and revenues which doesn't allow for sudden explosions of price. Instead, they are more susceptible to longer, less dramatic price trends.

Meanwhile, a biotechnology company can see its share price suddenly double or cut in half based on news, rumors, or even rampant speculation. FDA approval? Law-suit from side-effects of their primary drug? Even small sparks can ignite (or kill) a biotech penny stock.

Other penny stocks that are subject to spiking higher include:

- research and development corporations
- companies with inventions that require patent approvals
- businesses that operate on a contract basis, where one major client or job could represent a significant portion of their total revenues (for example, defense industry suppliers often see their share price thrown around suddenly, based on government contracts won or lost)
- latest "in-the-media" hot stocks (some past examples of such industries include nanotech, dot com and internet, blue tooth, uranium mining, and any business poised to conquer the Chinese market)
- resource exploration companies (not producers)

Some examples of companies that aren't necessarily subject to the same sudden price moves include:

- restaurants
- retail
- entertainment
- mining and resource producers (not exploration companies)
- furniture makers

Most companies, however, fall somewhere in between the examples given above. Such stocks are subject to price moves if the driving forces of their industries suddenly factor in. For example, a war in the Middle East will affect oil production stocks, or a company making clean energy technology suddenly benefits from a new government policy.

2. Volatility

Some stocks are naturally more volatile than others, for any of a number of reasons. You can get a feel for the propensity the shares have to move, simply by looking at a trading chart. what's the difference between the year high price and year low price? How many times did the shares change direction, and how quickly did the price ramp up or fall off? How long did major price moves last?

There is a numerical indicator known as "beta," which is simply a calculation of a stock's volatility. You can see the beta for any stock on various financial sites, such as Yahoo Finance. A company with a beta of 1.0 will be no more or less volatile than the overall market. A beta of 3.0 means the company is three times more volatile, while 0.5 would mean that the company is half as volatile. Using beta, you can quickly see what to expect from the activity of the underlying shares.

3. Anticipation

It is possible to predict the approximate time when most companies will release their financials (or you could just e-mail their public relations contact and ask). If you expect the details to surprise the street and you get involved before the release, you may be in for a good price ride.

If you can anticipate other types of releases, you may be able to benefit even further. For example, many biotechs will delineate their time line for product development, FDA applications, expected approvals, and product sales. Sometimes it's just a matter of reviewing their previous annual report.

By having this information ahead of time, you could locate key buying opportunities just before the company has several upcoming landmark dates. If the price is right, load up on shares several weeks before they are expected to finish the development of their latest product. Certainly a news release can be anticipated, and in many cases it will probably affect the stock price, even when it doesn't include any material changes or surprises from the company.

From another perspective, anticipating the biotech's time line can help you develop exit opportunities if you are hoping to sell shares, and want to liquidate into a potential price pop to get a better profit.

The same concepts can be applied to stocks from different industries. Just be aware of the timelines, potential effect of releases, and expected results. Try to make trading windows your friend, by benefitting from them, rather than being surprised by them. ■



Part Four:
>Most Important Penny Stock Commentaries

There are hundreds of blogs, articles, and press releases that can make you a better penny stock investor. Unfortunately, there are tens of thousands that could make you worse.

Before you bother delving through the ocean of confusion and misinformation, mostly written by people who have no idea what they are talking about, you'll want to read some of these listed below.

The following links will take you to some of the most important information that you should read to become a superior investor, and to benefit from penny stocks. These stand out above the thousands of articles and press releases, and will make you a great penny stock trader.

Penny Stock Videos:

http://www.pennystocks.net/videos.htm

Penny Stocks in the Media:

http://www.pennystocks.net/in-the-media.htm

News and Press Releases:

Three Keys Which the Best Penny Stocks Have in Common
http://www.wset.com/story/19661819/special-report-by-peter-leeds-announces-three-keys-which-the-best-penny-stocks-have-in-common

The Stock Market Has Reached an Encouraging Capitulation Point
http://www.kctv5.com/story/19165226/expert-in-penny-stocks-to-buy-peter-leeds-states-that-the-stock-market-has-reached-an-encouraging-capitulation-point

"Rapid Learning in Penny Stocks" E-Book
http://www.jsonline.com/business/pressrelease/national-press-releases/163666076.html

Peter Leeds, Announces Stop-Loss Opinions on Future Penny Stock Picks
http://www.newson6.com/story/18879067/financial-analyst-and-authority-on-penny-stocks-peter-leeds-announces-stop-loss-opinions-on-future-penny-stock-picks?clienttype=printable

Charges Laid Against Alleged Penny Stock Scams Are Very Welcome, According to Penny Stock Professional, Peter Leeds
http://dv8eddesigns.com/charges-laid-against-alleged-penny-stock-scams-are-very-welcome-according-to-penny-stock-professional-peter-leeds/

Articles:

Trading Manias:
http://ezinearticles.com/?Penny-Stock-Trading-Manias&id=4958121

What Penny Stocks Can Teach Us:
http://ezinearticles.com/?What-Penny-Stocks-Can-Teach-Us&id=3336993

The Penny Stocks Blog:

http://www.pennystocks.net/blog.htm

Blog Entries:

Systemic vs. Non-Systemic Risk:
http://www.pennystocks.net/blog.htm?blog=381&source=blog&title=Systemic-vs.-Non-Systemic-Risk-in-Penny-Stocks-to-Buy

Origins of a penny stock pro:
http://www.pennystocks.net/blog.htm?blog=380&source=blog&title=Origins-of-a-penny-stock-pro

Buzz words in penny stocks:
http://www.pennystocks.net/blog.htm?blog=378&source=blog&title=Buzz-Words-in-Penny-Stocks

Warning!

Scams and misleading information abound in the penny stock markets. It is out of control, and has reached epidemic proportions. Dishonesty is costing you, your friends, your family, your coworkers.

You have the power to help them, and yourself. Spread the word. Send *Pennies to Fortunes* to three or four others.

This e-book is meant to protect people by being shared. We are counting on you!



Disclaimer:

Pennies to Fortunes is a wholly owned publication of Modern Strategies Inc. The opinions expressed about the stocks and markets in this e-book or through our services are purely the result of independent research conducted by our staff and are not offers or solicitations to buy or sell the securities mentioned.

The trading of securities may not be suitable for all potential users of Pennies to Fortunes. You should be aware of the risks inherent in the stock market. Past performance does not guarantee or imply future success. You cannot assume that profits or gains will be realized or that any strategy discussed in Pennies to Fortunes will be profitable.

All contents of Pennies to Fortunes , PennyStocks.com, Peter Leeds Penny Stocks service, and related properties are provided for information purposes only. You agree that opinions of Modern Strategies Inc. should not be interpreted as investment advice, as an endorsement of any security, or as an offer to buy or sell any security. We are not a registered broker dealer, or financial advisor. We do not provide personal investment advice. We do not represent ourselves as qualified investment advisors or properly licensed parties. We are a publicly available service that provides general, disinterested information.

Remarks and data comprising Pennies to Fortunes, PennyStocks.com, Peter Leeds Penny Stocks service, and related properties are for informational purposes only and are provided without warranty of any kind. In no event will we be liable for any direct, indirect, consequential, or incidental damages arising out of any decision made or action taken by you in reliance on Pennies to Fortunes , PennyStocks.com, whether or not caused in whole or part by our negligence.

The purchase of securities discussed by Pennies to Fortunes may result in the loss of some or all of any investment made. We recommend that you consult a stockbroker or financial advisor before buying or selling securities, or making any investment decisions. You assume the entire cost and risk of any investing and/or trading you choose to undertake.

Any written or verbal communications, comments, reviews, or testimonials sent to Modern Strategies Inc. or any of its functioning properties is considered property of Modern Strategies Inc. and may be used or replicated at our discretion.
All information provided by Pennies to Fortunes is obtained from sources believed to be accurate and reliable. However, due to the number of sources from which information is obtained, there may be delays, omissions, or inaccuracies in such information. We do not warrant the accuracy of the information available through Pennies to Fortunes.



Peter Leeds

tel: 1.866.MY.LEEDS
e-mail: Questions@PeterLeeds.com
www.PeterLeeds.com

facebook

Join the Peter Leeds fan club on Facebook, and get instant insights, tips, and guidance.