

How to Make Big Bucks With Penny Stocks

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Introduction

If you are new to investing, you may have heard about the advantages of penny stocks. Before you get started with them though, it is important to realize that there are both good things and bad things about them. If you would like to make big bucks at penny stocks, you will need to understand both the good and the bad.

Those that invest in penny stocks are going to find this to be one of the more risky adventures in investing that they take on. The good news is, though, that there are plenty of great opportunities out there to do really, really well with penny stocks as well.

So, how to make sure that when you invest in penny stocks that your stocks go the right way for you?

This is a trick question because, like all investing, there is no sure fire way to make millions of dollars off of just one dollar. Everything has a risk involved with it and that risk is a common factor in why many people avoid the penny stock investing game. Why?

Penny stocks are quite beneficial when they turn out. But, because you are blindly putting your money into a no name company, you may find yourself losing it all the same. Many investors look towards other, more conservative types of investing instead for that very reason: they could lose it all this way.

Yet, you will learn throughout this e-book what you need to do in order to find success with penny stock investing. The secrets here come from having a solid knowledge base about what penny stock investing really is as well as what it can do for you if you play the game correctly.

To take full advantage of what this e-book offers, we suggest taking the time to really read through the entire thing and then read it again. No matter what level of skill you are at when it comes to penny stock investing, the bottom line is that education can be the best tool in getting rich off of penny stocks.

Does luck play a role? Perhaps a bit, but that does not mean that having the right skill level can not aid you into getting the big results you are really after.

Penny stock investing can be your ticket to investing in something that is low cost but can pay big. The goal here is to learn how to do that safely as well as successfully. The good news is that we will help you to learn just what you need to know to make big bucks in penny stocks.

Chapter 1: Understanding the Penny Stock

Before you can begin investing in penny stocks, you do need to take the time necessary to find the right knowledge base for the process. That is, you need to understand what the penny stock is as well as how you can invest in them.

What Is A Penny Stock?

The first order of business here is to define just what the term; “penny stock” refers to. The bad news is that there are many mixed definitions out there regarding what this type of stock actually is. Therefore, you need to understand what things are considered to be penny stocks and then how to determine what the stock really is.

For example, a penny stock is a common term used to describe a stock that is inexpensive to purchase per share. This could mean:

- A stock that is priced under one dollar per share
- A stock that is priced under five dollars per share
- A stock that is traded on what is called pink sheets
- Any over the counter, or OTC, type of stock

The United States Securities Division says that a penny stock is one that is valued under the value of five dollars and is traded either on pink sheets (over the counter) or on the NASDAQ.

Value Counts

What you should know is that a company that trades with penny stocks is a company that has a value that is quite low in comparison to other companies. It should have a net worth that is four million dollars or less in net tangible assets.

In other words, companies that are valued higher than this amount, those that have more inventories, for example, are those that regularly trade on the stock market. Those companies often have a good amount of history being up and running.

In addition, they usually have what is called heavy assets. This means that the company has a good amount of real business as well as solid equipment and a good amount of inventory. They are usually set in what their business is as well.

You will find that these companies are those that have fewer inventories, less sales, and are more commonly unknown than those companies that are traded on the stock market regularly. Of course, that's why they are called penny stocks. In addition, these companies generally do not carry a large amount of business from one quarter to the next. They may not even have defined goals or a solid business inventory as of yet.

Terminology

One thing that makes penny stocks so, well, frustrating to learn about is that they are often called by various different names. You may have heard them referred to as micro stock, nano stock, micro cap stock, small cap stocks and many other names. If that sounds confusing, just remember that they are generally all terms that rely simply on the fact that the stock is priced below

a dollar to five dollar range. In other words, penny stocks are quite affordable, low costing stocks.

Where They Trade

The stock markets like the New York Stock Exchange have very strict rules about which companies can actually trade on them. In addition, they monitor the company for what it is before allowing the company to be traded. What does that mean? It means that companies such as those that trade with penny stocks do not meet the criteria of the stock market to the degree that allows them to participate.

In other words, companies that trade in penny stocks do not necessarily have the assets, the business history or the net worth to be traded on the New York Stock Exchange or on other stock markets. Thus, they must be traded elsewhere.

Penny stocks are not traded on the stock market but they are still traded. In fact, they are traded as part of what is called the OTC. OTC stands for Over the Counter markets.

OTC markets can be part of the NASDAQ which is the National Association of Securities Dealers Automated Quotation. The NASDAQ National Market or NNM is made up of part of the OTC market.

Yet, there are some changes there, too. Often, the NASDAQ changes its rules, so to speak, allowing in penny stocks when they did not. Or, they may decide to change from allowing to not allowing any longer. Needless to say, the number of penny stocks that are on the NASDAQ in any given time changes readily.

So, at this point, you know that you can purchase penny stocks on the OTC markets. These would be non-NMN penny stocks. In addition, you can purchase them through some parts of the NASDAQ market as well. In just a

minute, we will touch on the third method of investing in penny stocks besides these two methods.

The Benefits of NASDAQ

Not all penny stocks are traded on NASDAQ that much you should know for sure. But, if you were to purchase stocks that are traded on this market, you should know that NASDAQ does provide for a good amount of regulation. That means that they do monitor the companies that are on their market as well as insure that they meet certain criteria before letting them change hands on the market.

In addition, there are some real benefits to working with the NASDAQ penny stock. For example, not only do they meet the specific requirements that the NASDAQ has in place, but they also provide for the ability to easily track those penny stocks. That's because the stocks traded on this market are reported at least weekly in many local newspapers.

This lets you easily track what is happening with the stock that you have purchased. The benefit here is that you do not have to contact your broker to learn about what is happening with your penny stocks.

Pink Sheet Investing

As mentioned, there is a third method to investing in penny stocks that you should know all about. That is what is called pink sheets. The pink sheets are actually a part of the OTC market. It is technically called the National Quotation Bureau's or the NQB.

This area of the penny stock market needs to be dealt with carefully. In short, it is less simplistic to handle and here is why.

- There are no necessarily strict listing standards applied to those penny stocks.
- There is little to no information available about pricing, as it is difficult to learn.
- They are called pink sheets because all of the information including lists and prices are printed onto these narrow sheets that are generally pink in color. That's about as accurate as you get here.
- The average investor has a hard time learning necessary information about them.
- If you work with a broker with pink sheets, you should not have as much of a problem obtaining the necessary information. They can contact what is called the market makers to get necessary information on them.
- The small investor without connections will have to rely on their stock broker for all necessary information about the penny stock that they are trading.

As you can see, trading penny stocks can be something of a risk simply from the way that they are set up. Yet, the investor that is educated and knows just what is needed to make the sale can do so with the help of a qualified stockbroker, something that we will talk about in later chapters.

It is essential for anyone that is interested in selling penny stocks to contact and work with a trustworthy stockbroker to insure the deal goes well.

Although it may sound as if we are being negative about this type of trading arrangement for penny stocks, it is not so much that it is negative, just a fair warning.

The different types of markets that you can invest in for penny stocks is important because you need to see the difference in the way that the stock is

traded as well as the difference in the way that it is placed onto the market. This plays a very important role in just how likely it is for a stock to be risky for you as well.

Those that are looking for a less risky option should take into consideration working with a NASDAQ based stock. Those that are looking for improved risk may not be okay with the high amount of risk that is posed by a penny stock in the first place. Nevertheless, if you are seasoned enough or looking for a huge windfall that plays on huge risks, then investing in OTC stocks through the pink sheets should be considered.

In the following chapters, we will talk more about determining your level of risk as far as penny stocks are concerned.

Chapter 2: Your Risk Tolerance and Penny Stock Investing

Now before we get any further into penny stock investing, it is wise for you to take into consideration at least some what you level of risk tolerance. If you are new to investing, this is an important task to learn simply because you need to understand just what you are up against in this penny stock game.

What's Risk?

Most people understand that a risk is something that is associated with the amount of safety that something has. That is, if something is risky, you have a good chance of failing at it. Now, that is not to say that all investing is risky. All investing does have some risk to it, though.

Some stocks are safer than others because there is less likely to be that opportunity for them to implode. Of course, it would be wonderful if we could all invest in safer stocks and count on the money coming in each and every month. Yet, the safer a stock is, the less likely it is to have that huge windfall or to gain significantly.

That's because of the company's strategies. What makes a stock safer is the fact that is it less volatile. There is not enough opportunity for that stock to lose huge amounts of ground. With less ability to do that, it is also less likely to gain substantial ground either.

Therefore, it is less likely to move up or down drastically when you are investing in it. The bottom line is that the safer a stock is, the less likely it is

to offer you any risk but the less likely it is to offer huge gains at the same time.

On the flip side, there is no doubt that a risky stock is just that, risky. By saying that it is risky, that means that it is more likely that the stock could lose ground. That is often because the company may not be as stable but has good potential. It may be that the way that the funds for that company are used is more potentially devastating.

Yet, even with this risk again comes the fact that with more risk there is more opportunity to gain as well. Because there is such a risk, there is also such an opportunity for substantial growth in the stock.

Therefore, those that are investing in these stocks do need to keep in mind that there is a good deal of a chance that they could lose whatever they put into them. On the flip side, though, the risk could pay off with a substantial amount of benefit in the long run as well.

The Penny Stock Risk Factor

Before we talk about where you stand on the scale of risk, we need you to realize that most if not all penny stocks are in fact risky business. You have less of an opportunity to stay safe with these types of stocks. Likewise, you have more of an ability to gain hugely than you would with a safer stock. In many ways, it is an all or nothing type of situation. The risk is there and is very real yet the benefits that could happen could be very big at the same time.

No one doubts that any stock is risky in that you are taking your cash and funds and putting them on the line. There have been very good stocks that have gone very bad very fast. Yet, there have been very risky stocks that have gone hugely successful at the same time. Therefore, we now need to talk about you.

Your Risk Tolerance

As we mentioned, it is all up to you, now to determine what your risk tolerance is. That means that you need to truly understand how much risk you can handle. This will help you to understand if in fact the penny stock is the right type of stock for you, specifically.

So, what's your risk tolerance? To determine this, you need to take into consideration how important the money that you are investing in means to you.

- If you lose this investment, will you be okay as far as financially speaking?
- If you lose this investment, is there a method for you to re-coop your money?
- You should understand that investing in penny stocks means that you should be able to right off your funds and not have to worry about them. Sure, no one wants to lose their money, but if you can safely say that it would be okay for your livelihood to lose it, then it is okay to invest in it. Your risk level is much higher.

Those that have a risk tolerance that is higher are those that can benefit the most from penny stocks. Those that have a lower risk level should tread lightly in the way of penny stocks. Simply, you need to know that it is okay with you to tap in and lose that money.

Even though you will do your best to insure that this does not happen, you still need to insure that you can do okay if it should happen to you.

Not the Same Risk?

If you know anything about the standard stock market, then you know that the amount of risk that something carries is something that is defined by several things. In fact, each stock can be seen from a different risk vantage point from one lender to the next. Which type of investor are you? In any case, what you need to consider is the fact that no two stocks are the same.

With that said, you can assume that there are some penny stocks that are less risky than others. You can also assume that there are things including steps that you can take to insure that the penny stocks that you are investing in are the safest types of penny stocks available. In short, you need to insure that what you invest in has the risk tolerance that you need.

The good news is that penny stocks do offer some flexibility in what risk that they provide. You will learn in the next chapters more about how to learn more about the stock so that you personally can judge the amount of risk that plays a role in that stock.

So, to sum up, here is what you need to do to determine just what your level of risk tolerance is.

1. Determine the amount of funds you plan to invest in penny stocks or other stocks for that matter.
2. Determine just how important it is to your financial security to have those funds.
3. Determine the amount of risk that you are personally okay with having in stocks.
4. Work with your financial planner or advisor to determine if the amount of risk is a wise decision for your own financial goals in the long term and short term.

5. Determine what risk level you are comfortable with and the type of penny stocks that fits those needs.

When you take the time to really work out what your financial risk tolerance is, you will be better suited to selecting the right type of stocks, penny stocks or otherwise, for you to invest in. There is no wrong answer. Remember, everyone's life and their financial abilities are different than the next. Going broke will not help you financially.

The fact is that having the right combination of safety and risk is the biggest factor in investing in penny stocks. You have to determine what that combination is for you personally.

Chapter 3: Your Broker Set Up

One of the key aspects to investing wisely with penny stocks is to know which, if any, penny stocks are the right ones for you. To do that, you need a solid broker, someone that you can rely on and know that they will be providing you with accurate information, timely information and will handle your money as if it is their own.

That's not such a tall order now is it?

It is and it can be difficult to find a broker that can provide you with the best outright agreement. Therefore, we will break down some of the key things to think about and work with when it comes to finding the right broker for penny stock investing.

Who's He Working For?

If you have traded stocks in the past, then you know that a stockbroker can play two different roles in the game.

1. He works as your agent. In this case, he is providing you with service and your goals are his goals. He works as your agent to handle the buying as the selling of your stocks. Usually, people are hands off in this situation meaning that they will tell their broker what they would like them to do and the agent does just that. In other cases, the broker will have more or less power to make decisions. That's not what is important here. What is important is the fact that he is working on your behalf.

Of course, in this type of an agreement your broker is being paid from you. If and when he makes something happen and you end up

gaining some money, he gets a cut of it. Or, you will pay him no matter what type of situation he is making for you. Nevertheless, you basically pay your broker in this agreement. He is paid a commission for working for you here.

2. He is working as the principal. In this case, the table is turned even if you do not realize it. Here, he is not working with you as a partner so to speak, but he is working at helping you to sell your shares, or buy shares, in stocks from him or through him. In this case, he is not just your agent but can be the agent for the buyer/seller of the stock as well.

In this case, he is not receiving a commission from you. Rather, he is getting his funds from the spread. Here, he is buying as well as selling stocks at just the right time to make the best amount of money. If you are working with a broker on these terms, his contract should say right on the front of it that you are working as a principal arrangement. Here, remember that your broker is now working for his benefit more so than yours.

As you can probably see, the stock broker that is working for you is one that is looking out for your own good. The one that is working for his own bottom line may not be as honest or provide as benefiting information to you. That is not to say that he will cheat you or otherwise cause problems for you. Rather, he is more likely to have other goals in mind rather than just your commission payment to him.

The Problem

The problem with this type of broker is quite obvious. You will not know first hand where the stockbroker's loyalty lies. Therefore, will he sell you a stock that is not doing well? Does he know a stock you own will be doing better in the future and therefore wants to sell it to you? Of course we can not say for sure that a stockbroker will do this or even that he will not. The bottom line

is, though, if you are in the business of penny stock investing, you need to know who's behind you.

Many penny stocks are traded in the way of principal stock brokers. Although this does not necessarily have to be a bad thing, it is important to know that it could potentially be there. There may be a conflict of interest in the way of the stock broker and you should know about it before hand.

Selecting a Broker Wisely

With penny stock investing, you can clearly see why it is important to have someone that you can trust to help you with funding your transactions. The problem is, though, that not all stock brokers are willing or even capable of selling penny stocks.

The problem, then, becomes double fold. Not only do you need to find a stock broker that deals with penny stocks, but you need one that is also someone that you can trust. This mix may seem hard to find but there are things that you can do to insure you get the best person for the job.

To help you to find the right stock broker for your needs, there are several things that you can do to make sure that it happens.

1. Get to know your broker. Talk to him and make sure that he is on the same page as you. If you do not feel that he is capable of making decisions for you, then don't work with him. If he does not seem trustworthy, don't work with him. As a new client, you should be the center of his attention. If not, will you likely be later on down the line?
2. Talk about experience with penny stocks. He may not be able to give you specifics about which stocks he has invested in and done well with, but if he has done well, he is sure to share good stories about it. But, you do not and should not feel that you are being pressured into any sale. If he is after the sale, he's not working on your side.

3. Determine his knowledge level. If you are talking with a penny stock broker, he should be quite versatile in what he is telling you. He should be able to answer any and all of your questions easily, without giving you the run around. You should talk about your goals and see what he suggests in order to reach them. A good stock broker is willing to plan your future with you and map out a plan to getting to those goals.

You can learn quite a bit about a stock broker simply by talking with him. In fact, just getting to know what he can offer to you is a good indication of what the future has to bring. Don't settle for just any stock broker. Instead, go for one you feel you can trust.

Chapter 4: Penny Stock Bidding Success

Being new to penny stocks does not mean that you shouldn't have all of the necessary information to make the right decisions from the beginning. We will not lie to you. Penny stock investing can be a risky adventure but having a good foundation of knowledge will help you throughout the entire process of investing.

With that said, one of the first things that you will want to do is to work on understanding penny stock bidding and prices. It is not as simply as you think, actually.

Penny stocks are a bit different in that they do not have just one price that they can be bought at or sold with. There are various prices that they are bought and sold with. You really need to be able to understand each difference here.

Bid versus Asking

The first thing to know is the difference between what is called the bidding price and the asking price.

- In the bid price, the rate is what someone out there is willing to pay for the security or stock. This is also the number at which you could sell your stock if you decided to.
- The asking price, on the other hand, is the amount at which you are willing to sell your security for. In other words, this is the amount at which others would have to pay to get your stock.

Understanding the difference here is important. If you are looking to purchase a stock, you will need to provide an accurate bid for it. If you are looking to sell your stock, you need to know what you could get for it.

The Spread

The next key price then, to understand is the spread. The spread of this situation is the difference between the asking price and the bid price on the stock sale. In many cases, this number is a "built in loss" when you are investing in the stock.

What is this built in loss? It is the fact that you have to take into account the cost of your trade as well as other factors. This would include such things as the transaction fee as well as the fee that your broker will charge you.

If you have a stock that you are looking to sell, you will want to at least break even when you sell that stock, right? But, to do this, there are certain things that you will need to take into consideration. To break even, you will need to insure that all of these extra costs are figured into the price that you sell for.

One thing that you will need to take into account is the fact that you'll need to know just how much you will need to ask to get the right coverage to break even or do better in the sale of a stock. It can be that the spread can be as much as fifty percent to one hundred percent. In some cases, it will be over that as well. More commonly, though, it is likely to be between twenty five and thirty five percent. Nevertheless, this is a cost to take into consideration.

Beware of any stock broker or other sales person that promises you that you will get the same price that you paid. They are not telling you the entire truth as far as price goes.

Two Prices?

Are you confused by the two prices that are listed? Penny stocks are commonly bid on using two price figures. There are generally two bid prices listed and two ask prices listed. This is called the inside, as well as the outside, bid and ask.

This is the range in which the stock can be bought or sold. In most cases, you will want to consider the outside bid and ask prices as well as the lower bid and the higher ask prices. These are the numbers you are looking for as they are generally the costs that you will find a public customer or beginner investor is likely to need.

Mark Up Pricing

There are several things to think about when it comes to penny stock investing. In the sale of penny stocks, there is an additional cost to take note of. That is the mark up price. Some broker or dealers will mark up the price of the security to a certain degree. They do this because they have had to maintain an inventory of the product. This usually happens when they need to maintain inventory sufficient to the supply demand that is out there for orderly and liquid markets.

In other words, to you, this is likely to be an additional cost of the penny stock. This is again the built in cost factor. This cost should be taken into consideration when it comes to your investing strategy as well as what your long term goals are.

Getting A Good Price

So, with all of that said, how are you likely to get a good price for the penny stocks that you will be investing? There are many ways that you can look at this. The most important thing to consider is the entire package. For example, in a typical situation, you are likely to get the best transaction in an agent situation.

That is due to the fact that the agent is looking out for you in a better manner than that of a principal situation. In many ways, the agent will be able to get the best possible results for your needs based on what the pricing factors are.

In most cases, penny stocks are purchased with a broker dealer type of situation. In this case, the broker will buy from the broker's customers at the bid price. They will sell at the ask price. That means that they get their compensation, whatever that is as determined beforehand. In addition to this, they are likely to get any fees associated with the mark up as well.

Chapter 5: Making Wise Penny Stock Choices

Now that you have a good understanding of what penny stocks actually are as well as how they affect you, it is time to consider how you can make wise decisions when investing in them.

The good news is that you can learn to make money, big money, with penny stocks. The question is; do you have what it takes to do that successfully each time?

In most cases, you will not make a profit every time you invest in penny stocks. They are volatile and can be something of a huge risk in most situations. Why is this?

There are a number of different reasons.

1. The companies that you are purchasing penny stocks from are generally low key companies without big names attached to them for easy recognition.
2. The companies do not have a track record, good or bad, for you to take into consideration with.
3. They usually do not have a lot of inventory or equipment or in some cases a definite market.
4. It is hard to predict the future of any of these penny stock companies in an accurate manner.
5. You need to find a stock broker that is working with you not against you.

As you can see, there are many things to take into consideration when it comes to investing in penny stocks. Yet, even with all of that said, people still flock to them. Why is that?

It is simple. They are affordable ways to invest in stocks in a virtually unknown company. Will this company that is just starting out be the next Wal-Mart? Will this company that is just getting into the game be the next big company with all kinds of potential? That 'what if' statement is what leads many to the table along with the ability to invest heavily without forking over a ton of money.

So, now it is your turn. How well will you do in finding solutions for penny stock investing? To help you, the next sections will cover some of the important decision making factors you need to keep in mind when it comes to penny stock investing.

Share Structure

The share structure of the penny stock you are considering purchasing is one of the key factors that you should consider when doing so. This is just how the shares of the stock are distributed throughout the share holders. Now, you may not realize why this is important, until it turns around and hits you. Consider this scenario.

You decide that the penny stock looks good to purchase. So, you go ahead and purchase a good amount of it. It turns out that there are millions of shares of that stock being held by one share holder in an off shore account. The problem with this is what is likely to happen now that you purchased the shares.

You see, if they are not the best of people, as soon as your investing into the penny stock happens, they sell off their stocks.

Why would they do this? It is quite simply because the value of the stock has now gone up. Although there is only two holders of the stock, it is likely that they will decide to sell their shares of the stock and, in the end, your stock value drops a considerable amount. In the end, they have sold the stock and now you are left with something that is not worth nearly as much as it looked like it did in the beginning.

Now, you decide that you would like to turn around and share your stocks. The problem is that the stock prices have rises to the level that makes them too costly with too much risk involved. In the end, you realize that you are stuck with a stock that is not selling. You simply are unlikely to be able to sell it for a profit.

To avoid this problem with penny stock investing, do your homework. Find out what the share structure of the stock is. You will see quickly how this helps you to make good decisions.

- Avoid penny stocks that have a limited share stock in just a few individuals, especially those that are just in one stock holder's account offshore.
- Second, make sure that the penny stock has a large number of stock holders and that the stock is more spread out. That can help to insure you get the best price for your penny stock all around. Penny stocks should not be single shareholders.

When you take the share structure into account, you are sure to see the benefits that are offered or the risks that play into the stock. You should be able to easily find this information out as well.

The Penny Stock Investing Company

When it comes to penny stock investing, learning about the company will provide you with the most ideal methods to making the right decision regarding the company itself. If you can take some time to do your homework, in other words, you are likely to find benefits along the way in the penny stock.

That is, learning more about the company that you are potentially investing in just makes good sense, right? Would you pour in thousands of dollars to just anyone that came up to you on the street and requested money for their new business? Not likely. For that same reason, you should know as much as you can about the company you are potentially purchasing stock to support.

Here's the bottom line. This company has not been traded, most likely, on the stock market. Therefore, it is not well known. On top of that, as you will learn later, there are plenty of opportunities for people to take advantage of those that are looking to invest in penny stocks.

With that said, the bottom line is that if you want to invest in penny stocks, you need to spend some time doing your own research to develop your own plan to make money with them.

One of the largest problems with penny stock investing is the fact that you are dealing with a relatively unknown company. But, that does not mean that you should not deal with them because no one knows about them. What happens if you pass them by and they become the next Microsoft some how in the future?

The good news is that there are a few easy and effective ways to learn more about a company by just doing a bit of investigating into them.

Here are some key things that you need to do before investing in any penny stock company.

Pick up the phone and call the company. This is a great easy way to learn about the company in the most ideal way possible. That is first person. Here's what you will want to do.

- Get the company's name, phone number and/or their address from the broker that is selling them. No need to provide any other information or tell them what you are up to.
- Call the company at the number given.
- If you can not get a hold of anyone, find out if there are alternate phone numbers available about the company itself. You can even search for the company name online to learn if it is in fact there and viable.
- If you can not find anything out about the company then you may want to take into consideration a different penny stock. Wouldn't any good company want to be contacted in order to actually do more business?

Now, calling the company is good, but what should you say if in fact you do get in touch with them? It is simple, you can simply say that you have heard about the company and would like to know a little about them. What do they do, where they are located as well as what their client base is like? Any decent company will be more than willing to provide this information to you, right?

But, what happens now? Do you want to simply stop there? Is that enough information for you about the company? Not yet it is not. You also want to know if the company is real and not just someone on the other line to answer just in case an investor calls.

To do this, take into account how the phone is answered. Did they answer with a simple, "Hello" as if it was a home? You can find out if a phone number is a residential line as well. If you are in fact connected with someone's home, most of the time this is a scam and you should not want to invest in it. Definitely consider looking elsewhere for a penny stock to invest in.

You can also track down the company in terms of how good it is in other ways. For example, if you are investing in a company that sells coffee, why not consider pretending you are the customer here.

- Where can you find the coffee?
- What type of reputation does the company have with such things as the Better Business Bureau?
- Does the company have a good health department report?
- Are there other factors that play a role in how well this business can do?

In other words if you are the customer looking to purchase a product of any type from this company, what would you get from them? Why ask this question? It is simple. If they do not have good customer relations, how well will your stock actually go up? Again, we ask, "would you give your money to just anyone on the street that asked for it?"

So, what is the bottom line here? It's quite simple. If you can not verify that the penny stock company is really a company, avoid them at all costs. All businesses that are real and true companies are more than willing to talk to customers as well as investors.

Of course, if you do get a hold of them, you do want to take some time to insure you are talking with someone that is actually capable of providing information such as the manager or owner of the business.

Learn About the Stock

After you take the time to thoroughly look at the company's reality, it is next important to take a look at the stock itself. You may not realize it but there is no doubt that these stocks are very risky business and may or may not show you some details of that risk right in the track record it has left behind for you.

In other words, most stocks can tell a history just in what they can provide for you by what they have done in the past.

No matter what type of investing you are doing, penny stocks or other securities, you want to learn about the stock as much as possible. Otherwise, how would you make the right decision with that stock? This can be completely meaningless. The company could do exceedingly well right off the bat. Yet, that does not mean that it is likely to be that way.

Why do this? Some companies are not legitimate and you are likely to come across a few that are anything but good investment opportunities. By doing this bit of investing, you can really learn about them and find out if in fact they are a potential problem or perhaps if they are an excellent gold mine as well.

What is it that you are looking for in the stock? There are several key things, actually. First, do you notice that there are many reverse splits in the stocks? This can be a sign of trouble with the stock. Another thing to be worrisome about is when you see several mergers with the stocks. This can mean some trouble for the company itself.

The bottom line is that most of the time, the stock's history will begin to repeat itself.

That means that if a stock is somewhat troublesome in the past, it is likely to be the same or worse in the future. Most of the time penny stocks can be traced back quite a way. This allows you to do the homework that you need to in order to learn more about the company in general.

The bottom line is this.

- Look at the history of the penny stock.
- Determine if the penny stock has had too many reverse splits in its recent and somewhat distant future.
- Determine if the penny stock has had several worrisome reverse mergers as well. This too can be traced back a bit to learn about the true trends.
- Analyze the risk that you believe is involved with this stock based on the facts that you find.
- If a stock has quite a few reverse splits or has had several reverse mergers, you may want to consider looking at a different penny stock or realize the risk involved.

The good news is that it will not necessarily take you a long time to find the answers to these specific questions. What's more is that you will likely find solutions to your questions within a matter of minutes and be able to cross off your list any possible problematic penny stocks that you may have been considering.

Take some time to determine the stocks history. It is well worth the investment in time. Doing these things can help you to find answers where you need them. It can also help you to learn what you need to know: the real level of risk that plays into penny stocks. The good news is that with a bit of time and research, you can find all sorts of answers to your questions regarding penny stocks.

In the next chapters, you will find some additional warnings to help you to insure that you know exactly what you are getting into.

Chapter 6: More Terms To Know About Penny Stocks

Before we go any further, there are some additional terms as well as points to bring up that can help to clarify things that you are likely to see in the public buying forums for penny stocks. Understanding them will help you to stay educated as well as safer when it comes to investing in penny stocks wisely.

What Are Market Makers?

One term that you may come across from time to time is that of market makers. Now, you are likely to hear both good things as well as a few bad things when it comes to these guys. The question is, what is it that they do?

A market maker is a broker that buys and sells penny stocks at 100 shares per transaction. While this may not seem like a whole lot, it can be a system that provides benefits to those that are dabbling into the penny stock markets. Why is that? It's simple.

The market marker system allows for market makers to purchase and sell shares at various prices. They do in fact set the price for the shares and this can help to keep purchases that are going back and forth increasing in value. In other words, each time that they buy or sell in that amount per purchase, they are able to set the tone for the penny stock, helping to increase the stock's benefit to you, the share holder.

Of course, it is good to have several money markets into this process as the more trading there is, the better the penny stock will fair as with any type of stock out there.

To learn the names of the actual market makers that are dealing with the penny stock that you are interested in, simply consult the pink sheets. They are generally listed there for your use.

Understanding Manipulation

Remember that we have talked about the fact that all brokers in penny stocks are not holding your hand through the process? Some will dabble with what is called penny stock manipulation. And, it is just what it sounds like it is.

Manipulation happens when there is a bad broker in the mix. Here's a basic mix of what happens in this case.

- There is only a few or even just one market maker involved. The market maker purchases a large amount of penny stocks for just about nothing.
- He then creates a market of his own by stirring up sales. He will literally encourage others to purchase the stocks based on either fabrications or simply exaggerations of what the stock will actually do. Most of the time, these things are unfounded.
- He sells all of his penny stock sales to those investors that have fallen for his sales hype leaving him with a nice penny to call his own of course.
- Since there is so much buying of the stock, the price and demand for the stock rises. This allows for the stock to do very well, very quickly, turning a profit.

- Yet, when the stock does not have any additional buyers, which is likely to happen quickly, the stock will bottom out or simply fall through leaving everyone with a stock that has nothing to it.

In some cases, the market maker will then purchase up the stocks and do the same process over to other penny stock investors. The end result is that those that are holding the penny stocks can sell them back with no likely possibility of breaking even or they have nothing left.

This can be quite frustrating to the stock holder and without even knowing it they have been taken for a ride.

What Are Initial Public Offerings?

Initial public offerings are in fact the first offerings of the penny stock to the general public. A company that is looking for investment dollars will begin the process of putting their company out there. Just like any stock market, it is important for new stocks to hit the penny stock market regularly, to keep it fresh with new competition and opportunities for those that are looking to invest to grow.

Remember, just because a penny stock company is brand new does not mean that it is not worthwhile. In fact, if no one investing in the stocks for small companies, there are plenty of huge corporations today that simply would not be where they are.

The trick is to know which to invest in and as we explained, doing your homework can make that process go much faster and easier for you.

What's The Difference?

Nevertheless, there are many things that you need to take into consideration. One of them is the difference in the penny stocks that we have been talking about, which are those that are on the secondary market as well as those that are on the Initial Public Offering market. There is a difference.

What you should realize, then, is what makes the difference. When a company decides that it will begin to offer its shares on the penny stock market, the first thing it needs to do is to seek out the Securities Division. In doing that, it will need to go through some pretty heavy workouts by the Division.

The goal of the guidelines offered by the Securities Division is that of providing for some information to the general public about the company and the risk involved.

If you remember, we talked about how with most penny stocks, the markets do not have strict restrictions on what and who can be sold on these markets. Therefore, it can be tricky for the average person to determine if the penny stock they are considering investing in is a good idea or not. But, with Initial Public Offerings, there is a difference.

Since this is the first time that the stock is on the market, the IPO, or Initial Public Offering, will be done will have many more restrictions applied to it. The Division is looking to insure that the penny stocks out there are actually offering something that is fair to the investor, something that is just to the investor and that it is equitable to the investor.

There is no way to know for sure if in fact all of the companies that go through the IPO are actually high quality companies, it is harder to get through a bad company or a scam in this manner. These guidelines do help to keep fraudulent offerings out of the picture.

They will not allow those companies that are found to be fraudulent or those that are not legitimate in some other manner will not be provided with registration and therefore can not be sold as penny stocks.

Therefore, those that are investing in Initial Public Offerings will have less of a chance of getting the bad guy.

States Aren't All The Same!

Now, there is something else that you need to take into consideration here.

That is that there are different laws that apply to different states. The bottom line is that there are plenty of opportunities to find the best companies out there but the rules and guidelines that apply to penny stocks in one state do not necessarily have the same guidelines in another state.

You can learn more about your specific state's guidelines by contacting and working with the Securities Division of your state. Most state websites will provide you with a link to this division's website. Make sure you take some time to check it out.

Secondary Market Laws

In addition, you should realize that penny stocks that are on the secondary market do not necessarily have the same guidelines or rules applied to them. In fact, there are big differences in which secondary markets in penny stocks can be quite tricky.

The requirements are usually less stringent and there are likely to be fewer laws governing those investments. Therefore, more attention to detail should be paid here.

Now that you have a good idea of what some of the additional terms that you will be seeing throughout penny stock investing are, you can begin moving into purchasing and using the information that you have gathered here.

To Review

But, before you do that, let's review what we covered here so far.

Be careful with who you are purchasing your penny stocks from. It pays to take the time to learn not only about the actual stocks but about your broker too. No matter how nice they seem, you do not want to end up with someone that is manipulating the stocks to look better than they are.

It is also important for you to look at the long term history of the penny stock. A penny stock that is a initial public offering will likely have more stringent guidelines on it, but that does not mean that it is 100% guaranteed to be something you want to invest in. Instead, do your own homework.

It pays to invest wisely in educating yourself about market makers as well. You will learn to notice these things as you go throughout the process of penny stock investing. What's more is that you are likely to be able to make better decisions now that you have a few more things under your belt.

But, wait, we are not done yet. We want you to head out into the world of penny stocks with all of the information that you could possibly need to make a solid decision. Therefore, the following chapters will provide you with tips, hints, tricks and more information that you have to know to make it big in penny stocks.

Chapter 7: Finding Legit Penny Stocks

Throughout this e-book, you have noticed that we give both the good and the bad when it comes to penny stocks. Here's why. There is no sense in telling you that you can make a huge amount of money with penny stocks if you do not know about all of the traps out there. In fact, one of the key points to this e-book is the fact that you can make a killing if you learn how to avoid those traps.

As we mentioned, there are good and bad aspects to each area of penny stock investing. But, we want to talk about some of the good stuff here for a minute.

For example, while there are bad companies out there and scams galore when it comes to penny stocks, there are plenty of opportunities as well. Your goal will be to find legitimate companies that do trade with pink sheets rather than on the big stock markets.

What is the best company to invest in? It is hard to say that one company or the next is the best one to go with, but the bottom line is that you can always find the fresh guy in the bunch. A fresh, young and even hip company can be the ideal company to invest in.

If you purchase those penny stocks for this brand new company at just pennies and hold them throughout the bad years until the company gets established enough, you may be able to sell them for top dollar really making a good deal of money off of these penny stocks. Yet there is a formula that needs to come from doing this. Here is your formula for success with new companies.

1. Do your homework and invest in companies that you have learned are real and offer something you believe is vital. You do not want to invest blindly into a new company. Do your homework as we have talked about here.
2. Purchase using a good amount of capital that you are okay with a high risk with. Remember; plan to lose it all so that when it comes back to you, you are safe. If you lose it, it shouldn't kill you financially speaking. Invest into the company as much capital as you can to gain as many low cost shares as possible while they are low cost shares.
3. Hold it. The key to making sure that the new company gets off the ground and does well is to hold your penny stocks. If you are investing for the long term, the penny stocks can only pay off in the long term if you hold them through the rough first years of business. Then, prices will rise as the company grows, expands and meets goals. Selling quickly will not allow you to break even.

Of course, a bit of luck always is helpful too when it comes to any investing strategy!

Analyzing the Company

The next thing to mention is a bit further in detail about new companies or really any company out there. As we have mentioned throughout this e-book, you need to insure that you have the information about the company to make the right decisions about it. Here are some of the most important pieces of information to gather regarding the company you are planning on investing in.

1. What type of business does the company engage in? Learning this will allow you to analyze how feasible and realistic the company actually is in your eyes.
2. What is the company's business plan and is that feasible as well? Here, you want to insure that the company has a plan for success not just winging it!
3. What is the amount of competitiveness that the company has? Does it compete against rival companies out there well? Does it have too much competition to make it realistically speaking?
4. How about looking at the ownership and the management of the company? Does it have solid management abilities? Are you confident in those managers and owners handling the funds you are giving them wisely? Can they really run the company the right way to make a profit?
5. What type of cash flow as well as capitalization does the company have? What allows it to move through its business? How do you feel about the way that this company is handling these aspects of the business?

Asking and getting answers to any and to all of these questions will allow you to know that you are working with the right company. Remember, pick up the phone and call them. Find out through research out stable the company is. Learn about them before you hand over your cash and then watch it evaporate with the company.

Success in Holding It

As we mentioned above, the next step is to keep the penny stocks for a good long time. That is important as it takes some time for any company to find its place in the market.

In short, plan to hold your penny stocks for some time, even several years. The fact is it takes that long for a new company to get into the business, get comfortable, make the right investments, get over slumps and problems and to actually mature. Once it has done this, the growth of the company will be in place. This is the only real way that you will see any real appreciation in the value of your penny stocks.

It makes sense that many people will not be able to hold onto their penny stocks for this amount of time. Yet, no company will be able to provide better results as a new company if they are not given the key factor of time.

Chapter 8: The Broker Search

Throughout this e-book we have talked about all of the bad guys out there. There is no hiding it that penny stocks are prime candidates for the bad broker guy. Yet, that does not mean that all brokers in the field are bad lots. In fact, you are sure to find the right opportunity for you in penny stocks as well as the right broker for the job by doing, yes; you guessed it, your homework.

It comes down to this, question, then.

How can you find the best broker for the job to secure the right penny stocks to make a killing?

That's a loaded question, isn't it?

Here are some tips for finding the right broker with the right penny stocks to invest in. We'll make it simple for you.

Tips to The Right Broker

1. Find the right broker through research or recommendation rather than advertisements. Make sure you know about the broker, his experience as well as his success rate. True interviews with him are essential; but only after you already know the facts about him.
2. Make sure that your broker is doing both the buying and selling speech. Any buyer that is doing nothing but trying to get you to buy penny stocks is not one that is faithful. You want a broker that is able to provide good advice that is balanced for both buying as well as selling penny stocks.

3. He or she should address your needs in investments. If he or she does not want to meet your needs, for example, they do not tolerate your level of risk then they are not the right broker for you. What's more, they should be able to help you to meet your goals through providing a balanced outlook on the right stocks for you, whether they are penny stocks or not.
4. Don't go to a broker that just specializes in penny stocks. Who knows if they are right for you? Beware of those that make huge promises that you know they can not keep. Remember, most people fail when it comes to penny stocks as the risks are that high.
5. Get the prospectus. First off, the broker needs to provide you with all of the necessary information you need to make a decision. The prospectus is one key element there. It provides you with key information such as the way in which the investment money will be used, the cash flow system of the company, the management of the company and even the history of that company.
6. Remember this key point: If you can not trust, or do not feel as if you can trust, your stock broker, do not work with him. Instead, find someone that you trust to handle your money. Learn what kind of experience they have and what history they have. Spend time on this decision as it is a huge one to consider.

The broker that you need is one that is going to be there for you. Since in most cases you can not buy and sell penny stocks on your own, you do want to find someone that you can count on to help you. What you will find is that most brokers are principal broker dealers in this field of penny stock investing.

That does not mean that you can not find a good quality broker agent to work with in penny stocks. The fact is that you can, easily. If you do, you will have more security in the long run in the stocks that you purchase as

this broker is more likely to be one that you can ultimately trust in the process.

Nevertheless, one of the key things you need to start with is investing in the right broker. Hands down, this is the first step of the process. Take the time to go through the details that we have listed for you above. Get all of your questions answered so that you can make the right decision beyond a doubt.

After securing the right broker, you should be able to sit down with them and talk about your investment strategy. That is, they should be able to provide you with all the necessary help you need to make the decisions you need. They should be working for you.

Next, find the right company to work with and invest in as we mentioned above.

Finally, before you get started on investing with penny stocks, take a minute to read the warnings that we have about penny stocks in the next chapter.

Chapter 9: Warnings and Risks

What you have read about penny stocks is this: the truth. We didn't sugar coat anything for you. We didn't provide you with false hope. If indeed you want to make a killing on penny stocks, you simply must take the time to do your homework thoroughly and use our strategy to make it happen.

We can not leave you without providing you with some very serious warnings and guidelines about penny stocks.

Here, you will find some less than positive things about penny stocks, but again, learning how to notice these things will help you to make the best decisions to avoid them. Remember, you can do well with penny stocks by starting with learning about the bad first.

Some Warnings

1. The best way to make solid money with penny stocks is in the long term. Therefore, any company that encourages you to buy and sell quickly is not giving you an honest shake.

In fact, any company that puts a lot of pressure on you for sales is not one to work with. Remember, a company that is just starting out is one that needs time to grow and expand. What's more is that it needs time to get its feet wet.

2. Avoid manipulation techniques by making sure to do your homework. A penny stock that has risen quickly only to fall hard is one that has been manipulated. Stay clear of these risky penny stock investments.

3. Don't invest blindly. Some brokers will encourage you to write them a blank check, allowing them to use the funds that you have put aside to invest in any way that they want to. It is important to play a role in this process especially until you get to know your broker fully.

You should know exactly where your money is going, how it will be spent and on whom it is to be spent. In fact, it should be broken down for you into how much will be spent on management and promoters and how much is going to increasing sales.

4. Check out the trade confirmations. These provide for the details of the transaction and contain key pieces of information. It should not be marked as "unsolicited" as this can help the broker to get around specific laws regarding the trade.

Also, make sure to read through the confirmation to insure that your information is accurate. This will include things like mistakes in your income, your net worth, and in what your investment objectives are.

This can be a way for the penny stock broker to be misrepresenting you and therefore not providing the right information about how suitable you are for a penny stock.

5. Always invest the time in monitoring your account. You should know what transactions are being made, who is making them and if they are in fact the ones to be made. Keeping in touch and keeping on top of your stocks are totally different things. Make sure you know just what needs to be accomplished.

There is no doubt that there are going to be problems when it comes to some brokers and even some poor companies in penny stocks. In fact, there are many cases where people lose a great deal of money in penny stocks

because of these factors. Yet, learning from these things can help you to make better decisions about the penny stocks that you invest in.

More Research Helps

The good news is this. The Securities Division offers quite a bit of information about penny stocks as well as provides help in finding legitimate opportunities. You do not need to worry about not finding the answers you need. Remember to take the time to find the right company, the right broker and the laws for your specific state as well. All of this can be provided through your Securities Division.

Conclusion

When it comes to investing in penny stocks, there is no doubt that there is a great risk. Most of the time, though, that risk can be limited by you knowing what you are doing and knowing how to make it a better investment opportunity.

If you are a new investor, we have provided you with solid information on how to get started with penny stocks. Will this be enough to make every decision perfectly? There is no such thing (don't believe it if you see it either!) It will take some time for you to learn the ins and outs of the business of investing. Yet, you now have a good foundation of knowledge to begin with.

Your first task will be to find the right broker for the job. Take all of the information we have provided you with here and make that happen. The good news is that there are excellent brokers out there that offer not only penny stocks but guidance with it. Pay more for better quality as it will pay in the long run.

Next, you will need to investigate each company you plan to work with in the way of penny stocks. There is no way to know for sure what the company will do, but knowing they are legitimate is something you can do. Follow the tricks and tips that we have provided you with here as well.

Take the time necessary to learn more about penny stock investing too. Don't believe anyone that tells you they are simply or guaranteed. But, with a foundation of solid knowledge, you are sure to make the best decisions possible when it comes to penny stock investing success. In that regard, you can make big bucks investing with penny stocks!

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