



A Bottom Feeder's Guide

To Surviving Penny Stocks

Introduction

Welcome to the wild, and wacky world of penny stocks. Chances are if you downloaded this e-book, you are a penny stock trader, or you are thinking of becoming one. I'm so intuitive, aren't I?

While there is some very good money to be made in trading penny stocks, you have to know what you are doing. Without some serious knowledge, along with a bit of luck on your side, you will lose not only your entire portfolio, but your spouse, kids, car, dog, and the kitchen sink as well.

You'll be singing your very own country music song, if you do not proceed with caution. I cannot stress that part enough. Then again, who knows? Maybe it'll win a CMT award, and if that happens, don't forget to give your friends at The Stockroach a shoutout in your acceptance speech.

I am not a licensed broker, nor am I qualified to give investment advice. Everything written here is based purely on my own opinions, and experiences in the realm of penny stocks.

I'll try to cover as many bases as possible from what a penny stock actually is, common myths, the best penny brokers for penny stocks, charts, and some personal anecdotes.

Alright, enough of the boring intro. Let's get on with what could quite possibly be the most poorly written e-book ever spat out onto the internet. Poorly written or not, it just might help you rake in some serious cash, or help you to minimize your losses.

Chapter I

! What are penny stocks?

Technically, penny stocks are common shares of a company that is trading under \$5. A lot of people have the misconception that penny stocks are only pinksheets, stocks that trade on the OTC bulletin board, or stocks that trade under \$1. They can trade on the Nasdaq, NYSE, Foreign exchanges, the pinksheets, the OTCs, if it's trading under \$5, yep...it's considered a penny stock.

"I don't care about the textbook definition of what a penny stock is, gimme the good stuff now!"

Okay, here are the types of penny stocks that are the most commonly traded, and the ones that tend to bring in the biggest gains.

Micro-pennies

These are stocks that trade in the triple zeros. For e.g. XYZ at a price per share of .0001. Micros, or trips as they are commonly called are the most volatile plays in pennyland. They are also usually stocks with the highest risks of reverse splits. Since every tick or 2 can mean 50%-100% gains, they are a favorite amongst flippers. These can bring in some easy gains if you have the patience to sit on the bid and sell for a couple of ticks at the ask. Micros can also be used as a great pick up line, "Hey baby, I own 10 million shares in XYZ company. Pretty sweet eh?"



The best micros usually trade between .0003 to .0008.

Sub-pennies

If a micro-penny is lucky enough to break out of the trips, then it moves onto being a sub-penny. I think it's pretty self explanatory. A sub-penny is a stock that is trading under .01. That's right, under a penny. These are usually the most popular amongst penny stock traders because they usually have the best chances of pulling a runner, or breaking out to the coveted pennyland . Meaning above a penny and beyond. They are also usually the most liquid, and the highest and fastest percentage gainers that I personally have seen.



The best subbies usually trade between .0025-.005.

Pennies

I'm only going to talk about pennies that trade under a \$1. Why? When was the last time that you saw a stock trading at \$1 and went, "Oooooooh it's going to go to \$1.25 in about 2 months. Gimme some of that!" Yeah, I didn't think so. When a penny stock is trading near or above a dollar, they tend to be pretty illiquid, and they are not a fan favorite in penny trading. We penny players like our profits hard and fast. If I wanted a 25% return in 2 months, I'd be on the blues.



The best pennies usually trade between .05-.25

Chapter II

! Which brokers are the best for trading penny stocks?

Well guys and gals, I'm not going to tell you which one is the best, since that is subjective but I'll tell you that I personally like TD Ameritrade. I call them Ameriturd when they put a restriction on a stock that I want to buy though.

I'll just give you the top 3 favorites, and most commonly used brokers. Then you can make up your own mind on which one best fits your trading style or budget.

TD Ameritrade

\$9.99 per trade, each way. So if you buy and sell a stock, automatically deduct \$20 for fees. Ameritrade has a whole lot of goodies, and trading platforms. Their execution times for trades are also extremely fast. When you are trading pennies, speed is key in my humble opinion. Their website: <http://www.tdameritrade.com/welcome1.html>

Zecco

\$4.95 per trade, each way. So a roundtrip will cost you \$10. Okay \$9.90, but are you seriously gonna give me grief over 10 cents? Zecco is very bare bones, so don't expect any fancy trading platforms or watchlists. The plus side is that they rarely put any restrictions on penny stocks, so many traders also have an account with Zecco just in case their favorite broker puts a buy restriction on a stock.

Their website: <https://www.zecco.com/>

E*Trade

More like E*Turd am I right? Their fees are \$9.99 or less per trade each way. From my personal experience, E*Trade has slow execution times, hidden fees, and I hate their market maker ETMM. Most newbies to trading tend to open accounts with E*Trade though.

Their website: <https://us.etrade.com/e/t/home>

So there you have it, the 3 most commonly used brokerages for penny stock trading.

“What about Scottrade?”

Eh, I'd stay away from them for penny stock trading. They have fees on top of fees, and they have too many restrictions on penny stocks.

Commonly asked question: How much money is a good amount to start trading penny stocks with?

You can start with \$100 if you want. The average seems to be \$500 though.

Chapter III

! What are technicals and fundamental analysis?

I'll start with fundamentals. Fundamentals on the pennies are just basically a good pump. Fundamentals differ so much on the pennies than they do on the bluechips it's absolutely absurd. What do I mean about a good pump? Fundamentals on the pennies almost always boils down to this:

"OMG! XYZ stock is going to get eleven trilliondy dollars in government funding, or a 10 billion dollar buyout by Microsoft!"

It's all about the hype, and how many players that believe it, and start buying up as many shares as they can.

Technical analysis however is (I think), THE most important part of a good penny stock play. While traders, penny stock CEOs, newsletters, penny gurus, and maybe even your dear old grandma may lie about a penny stock, there are certain indicators that rarely do.

While there are many ways of charting a stock, some methods are extremely complicated, and unnecessarily so, I think. Sometimes I want to shake the crap out of some of these chart elitists. It's a freaking penny stock, you can go shove that golden cross, and the fast and slow stochastics straight up your stinkyhole. Why don't you go oscillate on this *insert middle finger here*.

Whatever happened to keeping things simple? There's no reason to over complicate things.

Here's what an annotated chart done by an elite chartist usually looks like:



**ZOMG! Breakout!
The pink line says so!**

I'm just having a little fun with you chart masters, so don't go getting your panties all in a bunch. I know that a lot of you guys are super awesome, but then there those of you that pull things out of your stinky places.

Here are the things that I personally look for in a penny stock, this is my own trading method that has served me well.

The Relative Strength Index, also known as the RSI. The RSI is basically a momentum indicator. It shows you the current interest, or lack thereof in a stock. This is my own interpretation of the RSI:

Anything below 30: EXTREMELY oversold, could be good for a bottom bouncer as long as there is no fear of a reverse split. When a stock becomes that oversold, it's usually for a good reason.

30-40

Oversold, might be a good time to take a starter position. Stocks tend to bounce more often than not from these levels.

50-60

The trader “buy zone”, this is the area where a stock starts really showing accumulation and strength. This area is usually a good gauge of whether or not a stock is going to continue an uptrend.

70-80

The “Power zone”. The stock at this point is beyond accumulation, and is really starting to breakout. This is the area where a lot of snipers come in for a quick flip for easy profits.

90+

Get out, overbought. Mayday mayday your stock is about to go tankity tank. This is where shorts look for prime prices to sell short. There are exceptions, and I have seen stocks with an RSI well into the 90s keep going up for days, but they are the exception, not the rule.

Volume

This indicator goes hand in hand with the RSI, however there is good volume and bad volume. There's a saying that goes, "Volume precedes price." and it's true. Volume tends to precede price, but that doesn't mean that the stock is going to go up. For example, let's say that a stock you are in has an amazing volume day, I mean 300 million shares traded, yet the stock closed down 20%. I hate to say it, but it's either dilution, or your fellow traders pulled out a boatload of profits.

Check the RSI, if the line went down, then the momentum most likely is dying down. The opposite is true as well. If a stock that you are in has a 300 million volume day and closes up 30%, and that RSI line is heading for the 70s, you most likely will be able to squeeze some more profits out of it since it shows interest and continuing momentum.

MACD

The Moving Average Convergence Divergence. This is another momentum indicator. The MACD in my experience is the best indicator of a stock's potential to move up or down. A lot of traders don't pay enough attention to the MACD, and to me that's a shame.

When the MACD starts diverging, or let's simplify this. When the black line starts crossing upwards over the red line, that to me screams, "El Toro!" Let me give you an example in pictures. Everyone loves pictures, right? I'm going to use the same chart to show you just how the MACD showed the stock's breakout in price. I like to think of it as an all in one momentum indicator. See, simple. It takes into account volume, strength, and accumulation. The only thing that it doesn't tell you are the support and resistance levels, and that's where charting comes into play.



Now when the MACD starts to converge, then it usually means TIMBER, GTFO.

Chapter IV

! Charting. Support and resistance levels please?

Support and resistance levels are crucial to penny stocks, because they play a key role in trying to pinpoint an ideal entry and/or exit point. How are support and resistance levels determined? Well I have a tinfoil hat theory on this, traders are the real key support and resistance levels. You can throw up a chart, but charts can be easily manipulated and set up to look like a possible runner.

Dilution is always a big fear on the pennies, and no matter how good a chart looks, dilution or a boxed play by a trade group can turn that bullish chart into a huge POS. A boxed play is when a trade group frontloads a stock by buying up all the cheapies, and then they sucker another group of traders to buy the stock because the chart, “Looks so darn good!”

Here’s an example of a classic pump and dump chart that looked bullish the day before a huge dump. Can you see that white bull candle forming to show what could be the start of another leg up in price? Do you also see where the stock was frontloaded? Do you see the HUGE day after Thanksgiving sized dump?



So anyways, back to support and resistance levels. They are usually educated guesses in my opinion. For support, all you have to do is look on the chart above and see where the prices held for the longest period of time. For resistances, you look at the price levels where the stock had the most trouble moving to higher levels. Of course, news or dilution will always trump the charts. So I still say that support and resistance levels are set by traders.

Where can you find these super duper awesome charts, and learn more?

Stockcharts is my personal favorite: <http://stockcharts.com/freecharts/index.html>

To learn about dojis, cup and handle formations, golden crosses, and various other charting methods. Check out chart school:

http://stockcharts.com/school/doku.php?id=chart_school:chart_analysis

Chapter V

! **Market Makers, are they really evil jerks out to get traders?**

Short answer: No

Long answer: No, traders blame the market makers for everything.

Listen guys and gals, I am sure you've all heard that NITE, AUTO, VERT, ETMM, CSTI, or every other market maker is in your stock purely to piss you off, and make sure that you lose your money.

That's a whole load of stuff that comes out of a bull's rear end. Market makers are not there to do anything other than to set a price for the stock. Market makers are usually banks or brokerage companies that stand ready every second of the trading day with a bid and ask.

They are a necessary evil when trading period.

Do you know what trading pennies would be like without the MMs? Take a look at the grey sheets. There are no market makers there, it's a free for all and good luck trying to buy or sell anything on the greys. There is nobody to set a price, and it's basically the flea market of Wall street.

If you see a bid or ask being walked down, it's not a market maker that's doing it. All they did was set the price for the day, it's traders that move the price up or down. Every trader is being channeled through one of those "evil" MMs, and every share that you see being bought or sold is by a trader.

The MMs make money no matter which way a stock moves. They make their money on a tiny fraction of your trades. They will make money going up or down, they maintain a certain spread to offset their risks. Have you ever noticed that you can't buy a stock at .00045? That .00005 goes to the MM. The chances are if your stock is tanking, not moving no matter how many shares are being bought at the ask, it's most likely your friendly trader that is screaming his or her head off about, "THOSE EVIL MMs ARE OUT TO GET US!" that is either shorting, or selling their shares at the ask while blaming the down and dirty MMs.

The only manipulation that I personally can say that I have seen the MMs engage in is when they hide their bid and ask blocks on Level 2.

Chapter VI

! Level 2 platforms? Does it come with a decoder ring?

If you're already trading or planning on trading the pennies, I cannot stress enough how important the Level 2 platform is. It shows you the depth of the bid and ask, so that you are not trading blindly.

It can help prevent this:

"OMG someone just sold at the bid! I couldn't tell how many shares!"

Traders will take advantage of those that trade blindly. Let's say that a trader wants shares of a stock that is due for a really good PR, and they know that there are newbies to the game without level 2s. You can bet your sweet ass that they will do whatever they can to scare up some shares.

"Oh no, she's tanking TIMBER! 3 million just sold at the bid. HUGE dilution!"

While those with level 2s can see that it is only 10 trades of 1,000 shares each being sold at the bid. You get my drift?

Here's a screenshot of what Level 2 looks like. You can clearly see the depth of the buying and selling pressure.



“Where can I acquire Level 2 for penny stocks?”

Here’s a list of where you can subscribe to penny stock real-time Level 2 platforms:

TD Ameritrade’s Level 2 works for OTC stocks but not for pinksheets.

Most OTC companies will provide free level 2s on OTCmarkets.

Investor’s hub smallcap pro:

<http://ih.advfn.com/p.php?pid=prodmatrix&from=smatrix>

OTC/QB free Level 2s:

<http://www.otcmarkets.com/otcqb/home>

HotPennyStock’s Microcap feed is a very reliable one at a bargain price and you get a month free!

<http://www.thehotpennystocks.com/Stock-Screener/Level-II-Quotes.aspx>

Chapter VII

! The message boards. Pumpers vs. Bashers

Oh goody, my favorite topic. Everyone that is posting on a financial message board is in it for profits. Whether they are long players or short sellers, there is always a fight on the financial message boards. Not a day goes by without some sort of drama unfolding on a stock's message board.

Pumpers are generally those that are cheerleaders for a stock. The usual cry of the pumper sounds like this, *"To da moon Alice!"*

"Pennyland just around the corner!"

"This is going to a dollar! MARK THIS POST!"

Now a lot of pumpers have good intentions and truly do believe in a stock's potential. You can usually weed out the bad pumpers from the bunch by looking at your Level 2s, and of course the technical indicators that I pointed out in chapter III.

Some pumpers are compensated by third parties, or a company itself to tout their stock, and you can usually tell who they are by their disclaimers. Not all compensated plays are bad, and those that do pump for pay don't do it with bad intentions. Trust me when I say that penny stock CEOs will give a lot of unsuspecting penny gurus a good load of bullcrap, just so that they can make money off of his or her credibility, and followers.

Now onto the bashers, and the myth of the paid penny stock basher. I blogged this one awhile ago on the Stockroach, but it's a good read, and belongs in this e-book.

I'm sure you've all heard this one if you dare say anything negative about a play that you feel is starting to go a bit sour.

"How much are they paying you to bash this stock?"

Who “They” are? I don’t know.

Don’t get me wrong, there are bashers all over every finance forum that you can find but, **THEY ARE NOT PAID!**

In my experience there are many types of bashers and there is 1 type that all traders need to pay attention to.

The first one is the, “I lost money on this POS and YOU WILL TOO!” basher.

These bashers tend to post everyday, all day, for weeks, months and YEARS. Yes years, on a particular stock’s board. Now I don’t have a PHD in psychology and I am merely a bottom feeder playing the pennies and looking for the next feast, but I know crazy when I see it. If you are posting on a message board 24/7 and flooding it with “Timber.”, “SCAM!”, “GTFO” for YEARS, you are INSANE! Usually the stock is dead but these tinfoil hat wearers will spend all of their time bashing instead of trading. **Don’t pay attention to these nutjobs.**

Another type of basher that is common on the pennies are the ones that want to get in cheaper, or they missed the original run.

These people are usually flippers that for some reason think that they can move the market with their lame, “POS ALERT!”, “STOCK IS GOING DOWN!”, “ABORT MISSION!” postings. These leeches usually come out during a run. They sold too soon and want their original entry price. When a stock is on an uptrend and it happens to go down a few ticks, you will see **these bastards out in full force running around acting like chicken little. These bashers aren’t worth paying any attention to either.**

The short sell basher.

These guys shorted a stock at the high because they can see that the stock is overbought and want to cover as low as possible. Yes you can short penny stocks, you just have to know the right brokerage firm. The short sell bashers can range from just giving people a heads up, to thinking that they can move the market with their lame bashing attempts as well. **You might want to keep on eye on these guys but usually they tend to be ridiculous as well.**

The “basher” you want to take fairly seriously.

A lot of experienced penny players and penny gurus fit into this category, such as the Stockroach crew, haha. We shouldn't even be considered bashers, but that's what we are labeled when we don't like a stock. So what the hell I'm adding us as well. These bashers are the ones that can smell dilution, lying penny stock CEOs, and frontloaders a mile away. They do their DD, read a company's financials, look for any signs of a reverse or forward split, take market cap into consideration and can tell when the hype is over. **These “bashers” are the ones to keep an eye on because 90% of the time, they know what they are talking about and they are trying to save people's asses. Even if it's for self serving credibility.**

Now onto the pumptard bible.

Confessions of a paid basher

This pile of bullshit has been making it's rounds on every financial message board since the Fall of the year 2000. It was originally started by a trader going by the name of Firebird_1965 on the Raging Bulls forum. Firebird claimed to work for a boiler room based in Connecticut called Franklin, Andrews, Kramer, and Edelstein. Look at the first letter of each name. It spells FAKE, and Raging bulls pulled that thread because too many people started taking it seriously. It however took on a life of it's own and 11 years later people still believe in this hoax.

Listen guys, there is no company in the world that is going to pay anyone to bash their stock. Penny stocks eventually bash themselves by diluting, lying about their financials, lying about buyout offers from shady people, lying about deals, and I can go on and on about how they rip you off.

So if you are a basher or a pumper that thinks that YOU have the power to move a stock's PPS, may I suggest some Prozac or get your fellow trader buddy to give you a swift kick in the ass because that should work just as well.

Addendum

Now that you are armed with some knowledge of how trading penny stocks works. Get out there and make that dough. Take profits along the way, try not to take more than a 20% loss if possible, keep those mental stops in.

Have a solid exit plan always. A lot of times your gut instincts will be correct.

Let's say that you sell a stock too early and it runs another 200%,(and this happens to the best of us). Just be happy with the profits you have already made.

Like we say in the penny world, "There is always another one."

Good luck, and happy trading.

*Senorita
Roachita*

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