

Penny Stock Rule Book and Plays

Setting up (Pre-market)

Identify Any Major Key Levels:

- These are going to give you the levels to watch out for as a support lower or an overhead resistance. You will see penny stocks don't really stay true to small levels, only the major ones are valid. Prior wicks and strong levels of support and resistance should be marked off.

Look for Gaps:

- Gaps are a major play in penny stocks. When candles have gaps between the two, they are likely to fill sometime in the future. Watch these as your setting up your trade and notice this when you aren't trading them!

Check Previous Gappers and Study Them:

- A huge thing with penny stocks is the repetition they have. The chart will always repeat but it's your job to identify the pattern! Understand what it did Pre market, during the day it gapped, and the major levels involved when it gapped! Also, see the times it made the moves as they often repeat as well!

Check the Numbers and Reasoning:

- Penny stocks are just like any other stock, just less valued. They have floats, news volume etc. Make sure you check the float and the news of gapping and see if it's worth your while. Floats that are relatively higher, tend to become spready and show less

movement. Also, the news is vital so take a few minutes to understand why it's moving, and compare that to the news of the recent gaps. To identify a good float, jot down the float of your trades and compare the results. The majority of penny stocks are terrible companies trying to raise money. Check the dilution of the company to understand if it has this effect. This pretty much gives the right for the company to sell more shares to the public, increasing the supply and thus, decreasing the price.

Pre Market Price Action (PMPA):

- Check to see what it is doing during the pre-market. Is it failing to hold levels? Is it holding levels are just booming? Is the volume low? Ask yourself these questions and see if it shows bullish signals. Charts that continue to hold above 50% of the gap, tend to be stronger than ones that fail to hold. Also, mark off the PM highs and lows and use them for the next step, "Get Ready".

Second Opinion:

- We are all human, or at least I hope so, so understand that we will all have times that emotions will control our trade. So instead, give your thoughts on the trade to another trader you value and get their thoughts. Many times, when a trade is taken that starts to lose money, many traders, despite their process, will rational certain thinking. So, to help prevent that, have an accountability trader/s that will keep you in line.

Get Ready (Intra Day)

Waiting:

- It is very tempting to enter a penny stock as it's running out of the gates; however, where is the risk management, and the confirmation? Always wait for a pullback if it runs over PM highs. They will *always* pullback to either PM highs, some sort of key level or VWAP. I prefer a VWAP bounce as these tend to be my most profitable setups. Also, understand your best set ups. Size up on the ones that are almost perfect setups and size down, 30% of total, of setups that are still setting up or aren't according to full plan.

Pullback Entry:

- When this happens, see if the bid is holding and if the candles are showing either more upper wicks or lower wicks. If more bottom wicks are holding and the bid is holding the support level price, bulls are in control and it's likely to go higher. If the level is sort of holding and the bid is all over and there are more upper wicks, weakness is showing and it's likely to move lower.

Intra-Trade:

- When you are in a trade, you should already have a stop loss and exit; this is where the levels come in. The stronger the level, the more likely it will stay true. Either flatten at next key level, or take majority shares off at the next level. Also, every penny stock should have a "death line". This level is a strong support either the gap up pullback, PM low, or major support. If it breaks, *you never get in for long*, only short bias. Stop losses should have some slippage for wicks.

When Not to Get In:

- If the stock is below VWAP, there should be *no entry* on the long side. I understand that a level can hold and bounce below VWAP, whatever. The risk is *too much* for a front side long on a downward trend! Instead, wait for it to break VWAP and *hold* for longs!

Patterns:

- Penny stocks also have patterns just like any other stock. Look for these, especially at the first pullback. We see this very often has pullbacks go into head and shoulders and/or wedges. Play these just as you would with any other chart! When it's time to walk away
- I found the movement with small caps come the first 2 hours of the open and power hour (last hour of the trading day). I stop trading penny stocks after 2 hours of the open and walk away. If you have taken a loss according to your plan, *accept* it and don't be a child and become greedy! As long as there is a process, there will be valuable lessons. If your losses are small, the likelihood to blow up your account *dramatically* goes down!!

After-market Analysis

Understanding:

- Whenever you take a trade, it's *imperative* to review the trade and see why the chart reacted the way it did. Go over your entries and see if you could have performed better. Screenshot all the setups into *two* folders, Penny stock losers and Penny stock gainers. You will see *setups repeat*, even on different tickers!

Losses:

- If maybe you took a loss, go back to the pre market and intraday rules and notes and see what you've might've missed. All this is going to do is continue to develop your strategy and fix the holes in your process!