

# Dumb Money



Back when I first started trading, I was just a newbie, no prior experience. For God's sake I thought short selling was selling a position in under a year (couldn't be more wrong). I can attest, every new trader starts out with this brash cockiness after some demo trading profits, thinking they're the king of the castle and will crush any stock they trade.

At this point I was a brand new, 16 year old trader with a few thousand bucks I had saved up from a candy empire in high school. Yup, you read that right. My first come-up was from a candy operation that would bring a tear to Scarface's eye if I was his son. I killed it and the best part was I barely ever touched the candy. People always laugh when I say this, as a 16 year old kid selling candy under the counter in 2 counties across 6 high schools, business was booming. At my peak I had about 20 employees with the schools not having a clue other than the thousands of candy wrappers scattered throughout the hallways. All my teachers thought I had a bladder problem because I so frequently "went to the bathroom" to check the hallways to hide the evidence, which was about the most physical work I did, other than managing my sellers and counting the loot. I was moving over 1500 pieces of Sour Straw candy a day which came out to around \$375 in sales per **day**. Needless to say I was pumped for TGIM's as I still am 10+ years later. On Mondays my customers -- I mean classmates, would be salivating at the mouth to get their hands on some fresh straws after they devoured their weekend stash. (There's a lesson in supply and demand that you won't see in any textbooks.)



I never sold any, I just hired my friends and they hired their friends and so on it went. I paid them a few bucks a day and as much free candy as they liked, so I was sitting in class making \$15 an hour tax free while everyone else who also had to be in class was making \$0. \$2 an hour is a huge incentive to a high school kids whose only job is to talk to girls at lunch and sell candy. Win-win for my sellers and more importantly me. I didn't have to do the dirty work, and I obviously spun off the positives of the gig. Some of my top sellers were making \$100 a week while being in school, which sounds like chump change but back in 2004-2008 min wage in NJ was around \$7 before taxes, or about \$5 after taxes to work some shit job. My guys had to be in school and made just as much as they would at a "real" bullshit retail job.

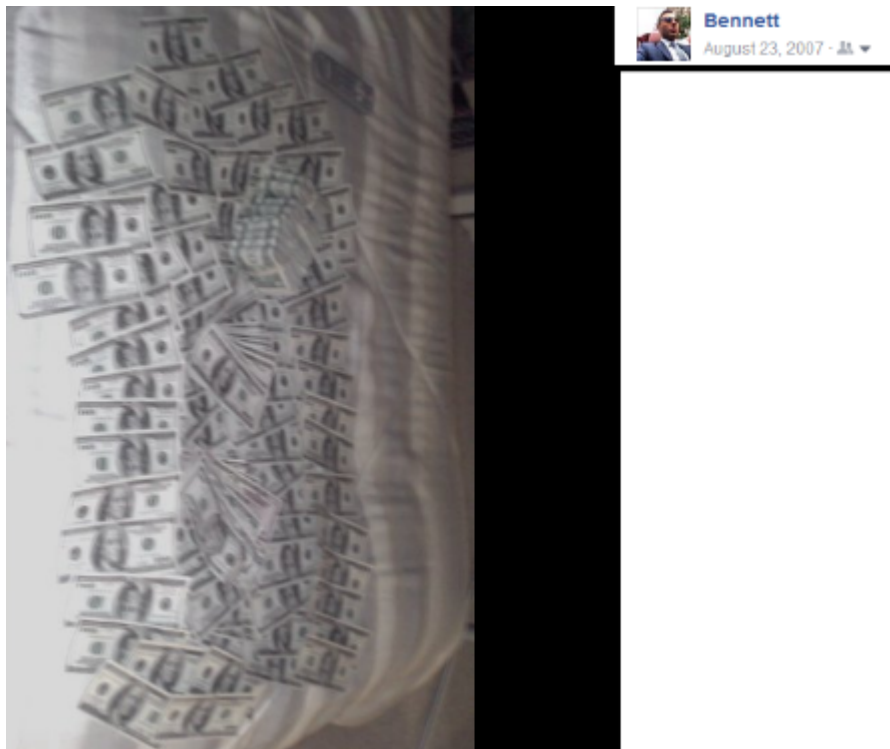
My cost basis was king. After everyone received their earnings (the candy was sold for \$.25 a piece or 5 for a buck) my cost basis was around \$.03 per piece. Other kids tried to copy my strategy (as do the same busters who try to copy us on IG) but could never make the margins I could and after a day or two would throw in the towel or come work for me (the busters don't come to TE today). I also bought factory direct, they paid retail, I was unstoppable. I was consistent and relentless if I had to lower my prices to \$.10 a piece for a few days to squeeze out my competition so be it.

Picture a PG version of Scarface; I was the only kid in town who owned 3 souped up mopeds and my top two sellers each week were able to borrow them for the weekend, come over on Fridays and count the weekly revenue (people respond to incentives). Believe me, counting \$1,500+ in quarters takes time, and for them it was a blast seeing all this money even if now my oil change on the Aston cost more than that.



I would pay off the principal in my school by giving him a box of candy under the table any time the less entrepreneurial teachers caught any of my guys selling in the halls or during lunch. After a few years of doing this, I got cocky and thought it would never end. In a similar fashion to Scarface, the chickens eventually came home to roost. Business slowed, employees quit. A few still stuck around but it was an extremely valuable lesson and some of my most important business lessons were learned during that 3 year period that still hold true fast forward a decade later. I still managed to walk away with some \$20,000 in profits (spent many hours at

the TD Bank coin counter) and some fun toys that most 16 year olds can only ask their parents for.



Back to the dog shit, I mean penny stocks; I had my own money and thought I could dominate the markets just as I did my high school hallways. Back then penny stocks were much different. Today you have stocktwits, “penny stock gurus”, and a lot of other promoters who could pump stocks to millions of people with virtually zero cost. Back in 2006-2008 that didn’t exist on a huge scale yet. Facebook was still number 2 to Myspace and Twitter was in its infant years. The way companies would promote penny stocks were in these fancy brochures that were mailed to your home with promises of being the next Exxon or Microsoft, throw a few charts and some images of stacks of money, and boom - you got yourself a marketing material. It’s funny looking back at how cheesy these mail outs were. Below are a few excerpts of some stories and my experience with penny stocks.

**"Dont worry, penny stocks will make you rich" said a poor man**

Random 6 ticker stock (TGSDGD). Aviation company, who were supposed to get a government contract to make fighter jets or some bull shit. This was one of my first lucky trades, bought \$5,000 worth of stock at around \$.60 cent a share, and two hours later I was up \$300.

Boom! Sold. No idea what, how, risk, what risk? I made \$300 that's all that mattered. I remember bragging that I made \$300 that day to a friend but couldn't explain how, other than I bought \$5k worth and sold it when it was at \$.70 a share. Company was trading at \$0.0008 within 6 months but who cares I made \$300 in an hour! If I did this every day I will make \$100,000 a year I boldly thought!

The next most notable trade was a hot tip, a friend of mine told me about a new auction company that was going to be the next eBay. (Hot tip givers are usually the people either getting smoked in the stock or don't have any skin in the game) Anyways I still remember the ticker BZCN mainly because my initials are BZ, this dog shit bid-ask spread was .0007 - .0008, 10 thousandth of a cent! Should really have noticed some of these red flags! The stock could not be more of a P-O-S. My first lucky break trading it was when I amassed some 12 million shares at \$0.0007 put an offer to sell at \$0.0008 and learn the lesson of buyers (bid) and sellers (ask), not like demo when you sell it sells. No no, I needed some liquidity. Now I had to wait for someone to take my 12 million shares at the offer. It took over a week. I could sell 12 million shares of Bank of America stock all day long if I wanted. But this POS, took a week for some other bright individual to take my offer, and a week later someone did and I made \$792 (I still remember the exact amount over a decade later), I was pumped to say the least. What does a sucker do? Goes back to the well. So I went back bought 12 million more at \$.0007, but now it's trading \$.0007 by \$.0006, time to buy another million, than another million at \$.0005. Come on guys, I'm dollar cost averaging I know what I'm doing! Another 5 million at \$.0004. I ended up building about a 20 million share position in this name at a price that was \$.0003. But it only needs to go back to \$0.0005 and I'll make \$2k. Boy was I a dreamer or what!

Long story short those 2 gains I made that amount to \$1,000 was nothing compared to this \$5,000 loss as the company went to \$.0000001. The same story you hear from all penny stock traders, I made \$500 in blah blah blah and then you never hear about them losing 5 times that in the next trade but I'll make it back you watch! Never happens. Ever wonder why in a world with 7 billion people there are so few people who make real money in penny stocks? Trust me if you think you will be one of the gurus, more power to you, given the probability of being 1 in a billion, good luck my friend. So let's recap, I started with around \$10,000 half of my Sour Straw profits, and I've made \$1,000 quick and lost \$5,000 in two penny stocks even quicker, for a net loss of \$4,000 or 40% of my account in 2 trades. That is so insane, I wish I could go back in time and bitch slap myself for such debauchery.

***“An investor's worst enemy is likely to be himself” Trading Experts***



The wildest or somewhat illegal thing that I witnessed with penny stocks was with a company that was supposed to be the next "Exxon" it apparently had huge oil fields in Texas, huge growth opportunities, etc. Same story as always. So I'm still riding high that I made \$1,000 and only lost \$5,000. New traders have to learn from their losses right? I have \$6,000 left in my account. Time to go all in on that oil penny stock and make back my losses right? Of course, it's penny stocks, I'm gonna be rich! So I bought around 7,000 shares at \$.70. All it needed to do was go to \$1.40 and I'd be back to even! You know, the company just needed to double, no sweat. But these are penny stocks, things like this happen every day! Easier said than done as the next day it's trading at \$.65, next day \$.60 cents, then \$.55, then \$.50 and so on. Every day this stock just slowly grinded lower and I watched the \$10,000 that I worked for over the past few years basically evaporate into thin air in a few trades. So now I'm pissed, I bought this stock two weeks ago at \$.70 and now it's at \$.10, staring at a lot of red on my screen. It's not my fault that I don't have a clue as to what I'm doing. It's the penny stocks fault, of course! So I hop onto their company website which was nothing more than a picture of a machine drilling oil in what looked to be Texas, and some highly questionable info on their site, I find the contact and actually get the "CFO's" email address. Another red flag.

So I fire off the fastest email ripping this company apart at around 8am. By noon my E\*Trade alerts that I had been setting at \$.60 \$.70 \$.80 started to fire off on my phone, and the stock was getting pumped, I went from sitting on around a \$4k loss (a 40% total loss from my \$10k account) and closed out the trade around \$.75 and made like \$100 after fees. Talk about the most F'd risk-reward known to man. I was down \$4,000 and was pumped that I made \$100 out of pure fucking luck. It could have been a coincidence that the stock went up some 700% within hours of my fiery email or the "CFO" was having one of those Boiler Room feelings, (if you haven't seen the movie, at the end Vin Diesel signs off on a trade to get the naive family man back his life savings in drum roll please a dog damn penny stock). By the close, much like any pump and dump, the stock was back down around \$.10. After that trade, I might have messed around in a penny stock here and there, but never with \$5k. Maybe with much smaller amounts treating them as lotto tickets. Eventually I came to the realization that penny stocks are for suckers. If you make money in penny stocks more power to you, but from my experience and the experience of 99% of the people we talk to, it's always the same story. I have even made a bet with the delusional penny stock dreamer that if within a year of trading if they are profitable net \$1 I will give them the keys to my Aston Martin, I have made these bet over 300 times and no one has come forward to collect.

***“Do more of what works and less of what doesn’t”* Trading Experts**

Since penny stocks are such a crap shoot, it is virtually impossible to have a consistent system trading them, unless you have access to information the rest of the world doesn't. But for us, we like to keep it simple and stick with what we know and what has worked over the years for thousands of traders. This game is about longevity after all, don't be a sucker getting played by penny stocks!

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