



JASON
BOND'S

PENNY STOCKS 101

Penny Stock Power Playbook

Become a Penny Stock Pro
in Less than 5 Days

jasonbondpicks.com

Preface

Let's face it, nearly everyone has tried, at one point, or another, to make a fortune in the stock market. What they probably didn't know when they first started was that it's hard, if you don't have the right mentoring or get a good base down. If you think this book is going to teach you everything about the market, you're wrong. I'm going to teach you just about a portion of the entire stock market universe, which is what I think has the highest risk-reward ratios, and they're not too hard to learn. Now, again, don't think that once you finish this book that you'll be able to make a fortune overnight. You'll need to have grit and keep at it, until you've figured it out. That means practicing, doing your homework and continue to learn about the markets.

I've taken a long road to become a quite successful stock trader. I went from being in a quarter million dollars worth of debt and working as a school teacher. I've always had a love for teaching, and I want to show you one of the keys that helped me get out of my debt, as well as become a multi-million dollar trader.

I know what you're thinking...penny stocks are "dangerous" and could be frauds. That might be true to an extent, but if you focus on penny stocks traded on NYSE and NASDAQ, you minimize some of that risk. I'm going to teach you how to look for the "best" penny stocks and potentially profit from penny stock trades.

I'd say the Pareto Principle helped me make millions in the stock market. Now, the Pareto Principle, or the 80/20 rule, states that for a plethora of events, approximately 80% of the effects

stems from 20% of the causes. In trading terms, I'd loosely say a bulk of my profits have come from some penny stocks that exploded.

Again, I'm going to teach you some tools and technique that are battle-tested that could get you started with penny stock trading. First, you'll need to learn these techniques, study them, then maybe paper trade and practice for a bit, before you put your money where your mouth is.

Chapter 1:

The Basics of Penny Stocks

You've probably heard one person tell you penny stocks are bad and you could lose your entire life savings in them. Well, it's not penny stocks that are bad, that's just poor risk management. In my opinion, I think penny stocks are great. Let me tell you why...I truly believe they offer the best risk-reward ratio of any asset class around. If you've got grit, do your due diligence, and continue learning about the game, I think you could potentially double your account size within a year.

Now, penny stocks aren't as risky as you might think. The SEC defines a penny stock as any stock that's trading below \$5. That's right, it just means that the stock is "cheap" and not necessarily shady. For example, at one point, Monster Beverage was a penny stock, and now it's trading at over \$50 per share (2017).

Like all stocks, your downside is to \$0, a stock's price can't fall below that. So, in a way, the downside risk in penny stocks is pretty low, and with the right risk management, you could limit your losses and not lose your shirt. For example, if you're trading a penny stock, the moves won't be as large, to the downside, as a higher dollar stock. If you're trading shares of, say Apple Inc. (**AAPL**), you could lose a bulk of your capital pretty quickly.

Now, since there aren't as many traders looking at penny stocks, this is where your edge comes in. When you're in the stock market...you need an edge. This is what gives you somewhat of an advantage of the other traders. Don't be afraid of penny stocks, and if anyone ever told you penny stocks are bad and you shouldn't trade them...Get that out of your head now.

Some of the most successful companies in their respective industries were penny stocks at one point or another. Take Monster Beverage (**MNST**), again, for example. Back in 2004, this stock was trading under a dollar, after adjusting for stock splits and other corporate actions. Monster Beverage is a legit company, and it's still around today. If you invested that for just a few months, that investment would have doubled then. You could pretty much see how much better you would've done if you bought it and held for the long term:



Source: [TradingView](https://www.tradingview.com/chart/?symbol=NASDAQ%3AMONSTER)

However, we're focused on swing trading here.

Las Vegas Sands Corp (**LVS**) is another example of a stock that was a penny stock at one point:



Source: [TradingView](https://www.tradingview.com)

GGP Inc (**GGP**) is another one that you could've banked in, if you had some grit and studied the markets.



Source: [TradingView](#)

Now, you don't need to stay invested in penny stocks for multiple years to reap the rewards.

There are penny stocks that move over 50% a day. Take a look at IZEA:



Source: TradingView

If you were able to get into this off of its catalyst, you would've been able to have a +25% trade.

Here's another look at a penny stock that exploded:



Source: TradingView

Not all penny stocks are one-hit wonders, there are some that grind higher for multiple days, and you could make +5% on these on some days.

The key takeaway: penny stocks aren't as dangerous or sketchy as you might think. If you focus on stocks that face stringent requirements, you won't have to deal with the sketchy penny stocks that don't give you all the information you need to make a trading or investment decision.

That said, let's move onto the difference between stocks listed on OTC, Pink Sheets, NASDAQ and NYSE. I cannot stress this enough... Stay away from stocks listed Over The Counter (OTC) and on the Pink Sheets. These exchanges have very lax requirements, and they don't have to report all their facts and figures.

For example, stocks listed on the OTCQX, OTCQB and Pink markets could trade without being registered with the SEC. That's right, these stocks don't have to report to the independent, federal government agency that protects investors. Again, stay away from these stocks at all costs.

You'll want to focus on penny stocks traded on NASDAQ and NYSE. Penny stocks traded on these exchanges have to follow strict requirements set out by the exchanges.

For example, NASDAQ stocks must have a minimum of 1.25M public-traded shares to be listed, and the regular bid price, at the time of the listing, must be at least \$4. Moreover, there must be at least three market-makers for the stock. Now, companies could qualify as a NASDAQ stock, even if it's trading below \$4, if it meets some other stringent requirements. Companies listed on the exchange also need to follow Nasdaq's corporate governance rules. That's only a few of the requirements need to be listed on Nasdaq.

Now, here's a look at the initial listing standards for NYSE MKT.

	Standard 1	Standard 2	Standard 3	Standard 4a	Standard 4b
Pre-tax income ⁽¹⁾	\$750,000	-	-	-	-
Market cap	-	-	\$50MM	\$75MM	-
Total assets and total revenue ⁽¹⁾	-	-	-	-	\$75MM
Market value of public float	\$3MM	\$15MM	\$15MM	\$20MM	\$20MM
Stockholders' equity	\$4MM	\$4MM	\$4MM	-	-
Minimum price	\$3	\$3	\$2	\$3	\$3
Operating history	-	2 years	-	-	-

And one of the following:

	Option 1	Option 2	Option 3
Public shareholders ⁽²⁾	800	400	400
Public float ⁽²⁾	500,000	1,000,000	500,000
Daily trading volume (6 months prior)	-	-	2,000 shares

Source: **NYSE**

These aren't the only requirements to be listed on NYSE, but we'll save you from those boring details.

The point is, focus on stocks trading under \$5 that are listed on NYSE and NASDAQ.

Hopefully, you've realized that penny stocks aren't all bad...you just need to know what you're looking for and not just go out there as a beginner and start buying random penny stocks, that's how you lose your shirt.

Before we dig deeper into penny stocks, you're going to need to learn some of the lingo.

Liquidity is one of the most important things to look for when you're trading penny stocks. Liquidity is quite simply how easy it is to buy and sell shares of a stock. One of the keys to penny stock trading when you're first starting out is to be able to quickly get in and out of a position quickly.

Typically, if there's a lack of liquidity, the **bid-ask spread** will be wide. The **bid price** is the maximum price a buyer is willing to pay for the stock, whereas the **ask price** is minimum price at which a seller is willing to sell shares of the stock for. So when you're trading penny stocks, you'll want to look for stocks with a narrow bid-ask spread, and a fairly high average daily volume.

Don't worry about how to look for these...I'm going to teach you how to use a quick and easy tool to scan for penny stocks.

Let's take a look at a simple example. A stock that trades over a million shares a day would be considered fairly liquid. If you buy or sell 1,000 shares of the stock, you're not really going to move the price, and you're able to get in and out easily. However, if you size up and trade, say 200K shares of the stock, you're probably going to move the stock because your position size represents a large chunk of the average daily volume. That in mind, you'll want to look for stocks with enough liquidity so that you won't move the stock, based on your position sizing.

Market capitalization, or market cap, is one quick and dirty way to value a company. All you have to do is multiply the number of **shares outstanding**, the total number of shares that were issued by the company, by its current stock price. Now, penny stocks are typically small companies with a market cap of anywhere between \$10M to \$300M. That might seem like a lot of money to us, but that's peanuts on the Street. Now, it doesn't mean penny stocks can't be valued at billions of dollars. If a stock is trading at say \$4 but has say over 300M shares outstanding, it's over a \$1B company.

Float, or floating shares, is the number of publicly-owned shares that are available to trade. Floating shares does not include restricted shares, which are those purchased privately or held by insiders (such as directors and executives).

Now, **low floats**, stocks with a low number of shares available for trading, are generally more volatile due to supply and demand. Since there's a low number of shares available for trading, in the event of a positive catalyst, stocks could spike over 50% and, sometimes, more-than double in a matter of days.

Volatility is simply how fast and sharp a stock price moves. If you're in a highly volatile stock, it could be scary...However, volatility is how traders make money. I love volatility cause the momentum in both directions uncovers some trading opportunities. The beautiful thing about trading penny stocks is that these large swings typically revert to

the mean. Think of it like a pendulum...it moves back and forth...until it finds an equilibrium point. However, you don't want to be caught on the wrong side of the momentum. You always want to ride that wave and not fight the stock. Without volatility, there will be small price movements, and you won't be able to make the big bucks. Later, I'm going to go over my battle-tested strategy that could help you identify ways to ride the momentum and potentially make a large chunk of change.

First things first, I'm a technical trader...it's pretty simple. I do my research and look for patterns, but I'll also look for potential catalyst events. That said, we'll need to go over the basics of technical analysis.

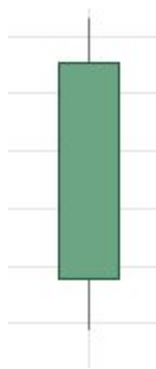
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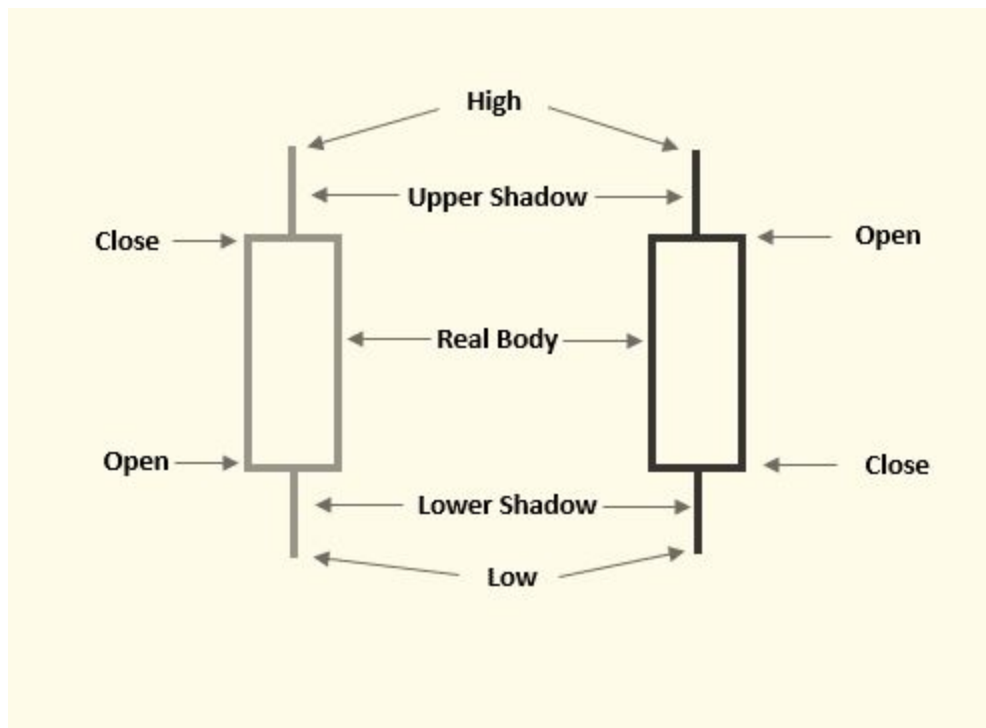
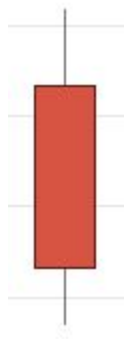
The Skinny on Technical Analysis

Technical analysis is widely used amongst traders, and you're pretty much analyzing a stock based on its price action and different chart patterns. You just form a thesis about where the stock price might be headed, based on some indicator. Before we get into the more "advanced" topics of technical analysis, we'll need to go over some of the basics.

There are few different ways to plot stock charts. However, we're going to be focused on candlestick charts. Candlestick charts have a wealth of information about the price action of a stock, and it's one of the most-widely used types of charts for trading.

Now, there are two types of candlesticks, which are typically green and red:





Take a look at the figures above. On the right side, you'll notice the opening price is above the closing price, and the high and low prices are shown in the candlestick as well. Typically, this type of candlestick is red. On the other hand, the candlestick on the left side is typically green in a chart. We're going to stick with green and red candlesticks.

A green candlestick is bullish, while a red candlestick is bearish. In other words, a green candlestick indicates that the stock had “bullish” trading for the specified period, and the stock price closed above where it opened for that period. A red candle indicates a stock had “bearish” trading in that period, and the stock price closed below where it opened for that period.

For example, take a look at DryShips (**DRYS**).



On the left hand side of the chart, you’ll notice multiple red bars. This is an indication that it’s had bearish trading because the stock price dropped from over \$16 to below \$8 in just a matter of days. *Note: These prices are adjusted for stock splits and other corporate actions.

I'm going to stick with charts from TradingView because it's a free charting software that you could use to practice spotting patterns, which will help you cut some costs when you're trading. But once you open up a brokerage account, their platform should provide some sort of charting software.

Now, let's get into some of the building blocks of technical analysis: **support** and **resistance**.

Support is where a stock's price settles and holds, and those who are bullish on the stock are willing to buy the stock, and therefore, drives the price up because they're bidding it up. Typically, a stock should hold its support area, and I'm going to teach you how to identify these areas.

On the other hand, **resistance** is where a stock rises to, only to have sellers step in and either short sell, or sell out of their current position. Now, we won't get into the intricacies of **short selling**. All you need to know is that traders are able to sell a stock that they don't own, by borrowing from their brokerage firm. Short sellers want the price to fall so they could profit because they sold the stock at a higher price and are looking to close out their position at a lower price. Generally, a stock will reach its resistance level and pull back from that area.



You would want to look back, historically, to see which spots a stock rebounded or pulled back from, to identify support and resistance, respectively.

Keep in mind that a stock could rise above its resistance or fall below its support.

Technical analysis isn't a science...it's more of an art form, so you don't have to be perfect with drawing support and resistance lines.

Let's take a look at some more examples of support and resistance.



Take a look at the support and resistance areas on Apple (**AAPL**). If you notice, AAPL hit its resistance area and pulled back from the \$155 all the way down to its support area around \$142. But take a look at what happens at the resistance area. The stock bounces right off and gets back above \$150 in a matter of trading days.

Moving on, you'll notice the similar pattern in Facebook (**FB**) in the chart below:



You should have the basics of support and resistance down pat now. You'll need to practice looking for these areas, so you could spot them quickly, if and when, you start trading penny stocks. That said, let's take a look at some other technical indicators and patterns.

You'll also need to know how to draw trendlines. A **trendline** is simply a line that's drawn between two points, typically from a low to a high point, and vice versa.

Here's a look at an uptrend line:



Conversely, we have the downtrend line:



That's easy enough to do. It might seem silly at first, but drawing trendlines, support and resistance lines will help a lot when you're first using technical analysis.

Moving averages are widely used, and traders use this as a reference point for the average price a stock has been trading at over a specified time frame. Generally, if a stock breaks through a moving average, it's bullish and could build momentum. The opposite is true if it breaks below.

Traders will generally use moving average crossovers to signal an entry or exit point. A moving average crossover occurs when a short-term moving average crosses above or below a longer-term moving average. Don't fret if that's not clear, it's pretty simple. Some of the most commonly used periods for moving averages are the 50, 100 and 200. For example, to calculate a 50 period simple moving average, you simply divide the sum of the previous 50 closing prices for a specified time frame and divide it by 50. Don't worry, you don't need to do any calculations here, charting software usually have this already done for you. Let's get right into some examples of moving average crossovers.

Take a look at this bearish moving average crossover. Equifax (**EFX**) had some really bad press after it got hacked and social security numbers were leaked back in September 2017. The stock opened up lower, and the 50 period moving average crossed below the 100 period moving average, that's really bearish.



Some traders use this as an indication to either get short a stock or sell out of their position.

Here's what happened after:



Take a look at Zynga (**ZNGA**). You could see the 50 period simple moving average crossed above the 100 period simple moving average.



This is pretty bullish. Moreover, the 100 period moving average held as support and didn't break below, some traders will buy the stock based on this price action.

Let's see what happened in just a matter of weeks:



The stock gained over 25% after this moving average crossover! Pretty simple right?

Here's another look at moving average crossovers:



Again, you'll need to study charts and these patterns when you're first starting out. So get on a charting software and start playing around with it to plot your own moving average crossovers.

Now, there are a lot of indicators out there, but we're going to keep it simple here. The last thing you want to do is be overwhelmed with 10 different indicators and figuring out which ones to use. Moving average crossovers, support and resistance, and one of my bread-and-butter indicators are what you should be focused on when you're learning about trading penny stocks.

Let's move onto some common patterns you might see.

Double tops are simply points at which a stock price reaches two times and begins to pull back from. Double tops are two consecutive peaks and they're around the same price. Think of it almost like a resistance level.

Here's a look at a "textbook" double top:



Notice how Novagold (**NG**) reached a high of \$4.53 in the chart, pulled back a little, tested the \$4.53 level again, but failed to get above. Thereafter, the stock pulled all the way back below \$4.

Here's another look at a double top formation:



Notice how Teekay Offshore Partners (**TOO**) hit a peak of \$5.71 two times, but failed to break above. Thereafter, the stock plummeted hard and lost over 10% in just a few trading days.

Double bottoms are the exact opposite. Double bottoms form at the end of bearish trading. This pattern is formed when the price forms two troughs.

Check out this double bottom formation:



In the above chart, you'll notice a double bottom pattern in Weatherford Intl (**WFT**).

Remember what we said about technical analysis earlier? It's an art form, so you don't have to be exact. Although WFT fell slightly below the first bottom, I'd still consider this a double bottom. Notice what happens after it fell slightly below the first bottom. The stock shot right up in just a matter of a few trading hours.

Take a look at this double bottom formation on the hourly chart on 22nd Century Group (**XXII**):



The price held right at \$2.42, and it was the end of some bearish trading. The stock rebounded off of \$2.42 to \$2.74 in a just 4 hours, good for a +10% gain.

Now that we've got a lot of the basics of technical analysis done with, let's take a look at my **bread-and-butter setup**.

I like to use Fibonacci retracements...This indicator is super powerful, and I'm going to show you exactly how I use them to profit off of penny stocks.

If you've never heard of Fibonacci retracements, it's simple technical indicator that's based on key numbers that were identified by a mathematician hundreds of years ago.

Quite simply, we're focused on the ratios. You don't need to do any fancy math here, trading software generally have this indicator, but you'll need to learn how to use them.

When you're using a Fibonacci retracement, you plot the Fibonacci retracement on two extreme points. The ratios are 0%, 23.6%, 38.2%, 50%, 61.8% and 100%. When these levels are defined, there are horizontal lines drawn at these points, which could help to identify support and resistance levels.

When you're first starting out, you don't want to chase stocks on momentum, and that's where the Fibonacci retracement comes into play. If I see a stock up or down 50%, I'm going to wait for it to reach a Fibonacci retracement level and try to get in at one of those levels. But I don't just buy if it reaches any Fibonacci level...I like to get in when the stock retraces to the 50% and 61.8% level.

Now that we've got a basic idea of how it works, let's see this in action and how I use it to profit off of penny stocks.

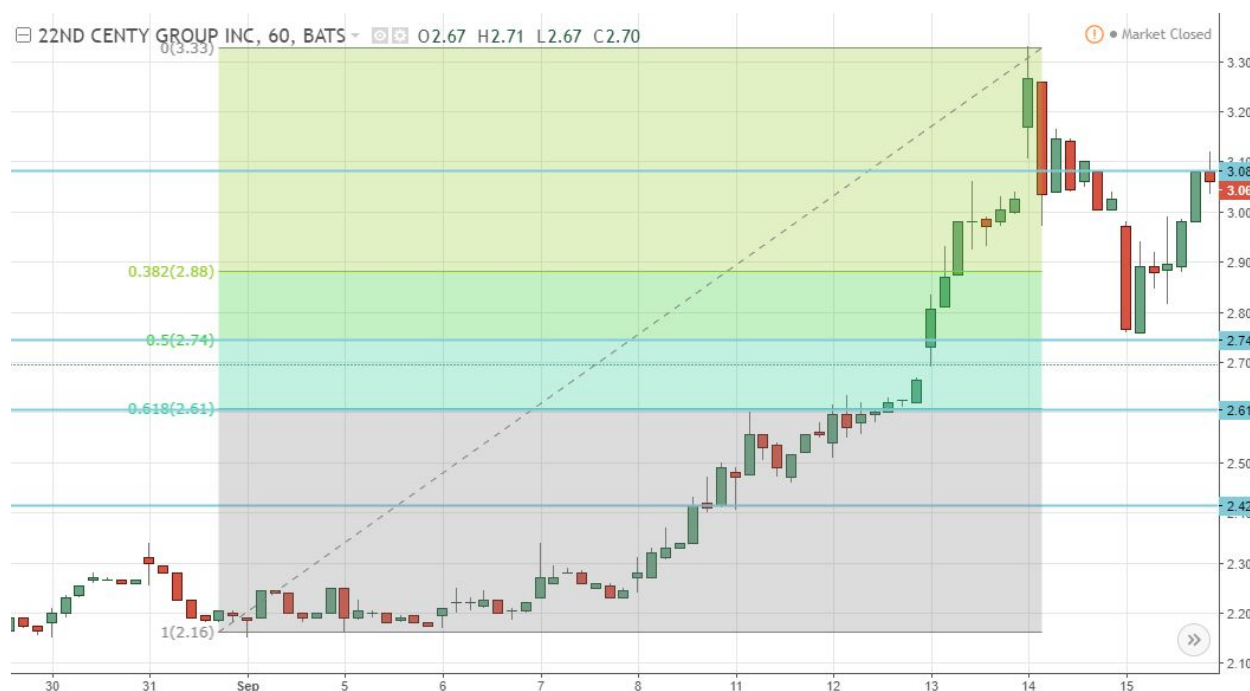
Let's look at an example of a Fibonacci retracement on XXII.



If you notice above, you'll see the Fibonacci retracement, where I drew it from a swing low of \$2.16 to a swing high of \$3.33. Now, that's a +50% and I'd consider getting long this if it pulls back to \$2.74 (the 50% Fibonacci retracement) or \$2.61 (the 61.8% retracement).



Take a look at the chart again. XXII pulled right back around the 50% retracement level. I would buy this stock at these levels. I'm looking for the stock to rebound off of this pull back and continue higher.



Boom! If you were able to buy around \$2.75, you could've made around 10% off of this.

Let's take a look at another Fib retracement trade here.



Helios & Matheson Analytics (**HMNY**) exploded here. I drew the retracement from a low of \$1 to a high of \$16.90-\$17. Now, The stock pierces through its 50% retracement at \$8.95 and hits it's 61.8% retracement around \$7.07. This would be a good spot for me consider getting long.

Here's what the stock did after:



That would've been could for a +50% gain, if your execution was on point.

The same thing happened with Fang Holdings (**SFUN**):



The stock fell slightly below its 50% retracement, but it held as support, and I'd be willing to buy here.



Again! The stock bounces right off of the area just below the 50% retracement and explodes right after. That would've been good for a +10% return.

Let's take a look at one final example of the Fibonacci retracement.



The story is the same when you look at CareDX (**CDNA**). Now that I've taught you how to spot my bread-and-butter trades, you'll need to practice and keep at it. Try to look at penny stock charts in names that are up over 50%, then draw the retracements and see how it plays out. Keep in mind, the Fibonacci retracement doesn't work 100% of the time, but it works more often than not. You'll just need to properly risk manage, which will be discussed in the next chapter.

Chapter 3:

Risk Management and Order Types

You should understand the basics of technical indicators and the stock market now. The next thing you'll need to learn before you even start to trade is to identify risk-reward and understand order types.

Knowing how to manage your risk is half of the puzzle when you're trading penny stocks. Limiting your losses when you're wrong is the **most** important thing you could do. You need to go in and understand what you're willing to lose and your profit target, before you even get into a trade. You'll need to be realistic here. Don't set goals like, *"I'm going to risk \$1 per share to make \$100 per share in a few weeks."* Chances are that's not going to happen.

You need to learn to come up with a strategy, stick to your plan and not second guess yourself when you're trading.

For example, you generally want your risk-reward ratio to be greater than 1 to 1.5. For example, if your risk-reward ratio is 1 to 1.5, it means you're willing to lose \$1 to make \$1.50 or more. It's that easy. You never want to risk more than you're going to make. Before we get into how you could limit your losses using the Fibonacci retracement, we're going to need to go over some order types.

The most basic order type is the **market order**. If you place a market order to buy, sell or short sell a stock, your order would get filled at the current market price. I generally avoid this order type because it could get you into a lot of trouble. For example, if a stock's most recent trade price at \$10 dollars, and there highest bid is at \$9 and the highest ask, or offer, price is at \$11, putting in a market order will get you into trouble. If you don't notice this and enter a market order to buy, it will most likely fill your order at \$11, and you'll be instantly down because you paid up for it. If you sold the stock, or hit the bid at \$9, you would be down too. Especially with volatile penny stocks, you want to avoid using market orders at all costs. Specifying your entry price will help you limit your risk, once you've defined how much you're willing to lose. Plain and simple: don't get ripped off by other traders. There are a lot of traps and tricks out there, and you'll need to avoid those. Avoiding the use of market orders helps with that.

The next order type you'll need to know is the **limit order**. This will be your friend, especially if you're using my battle-tested Fibonacci retracement strategy. A limit order allows you the specify the price at which you want your order to get executed at. So you could say, *"I'm only buying if the stock falls to the 50% retracement level at \$3.25, so I'm going to put my limit order there."* If a seller comes in and places an order to sell at that price, your trade will be executed and you'll be long that stock. Again, avoid market orders at first, unless the stock is super liquid with a penny spread. However, I

recommend using limit orders because you'll have a set entry price, and won't have to sit at your computer all day waiting to push a button.

Stop loss orders will help with your risk management. They're placed to liquidate a position after the stock has hit your specified price, helping to protect against larger potential losses. You're just specifying a price where you can get out and you can say, *"All right, I'm willing to lose 50 cents, or if the stock breaks below the 61.8% Fibonacci retracement."* Stop losses could be extremely helpful, and could really protect you if your position starts to go sour.

There's a more advanced stop loss order: the **trailing stop loss**. Now, you should only use these orders if you're advanced. Unlike a traditional stop loss where you specify the price, a trailing stop loss follows the changes in the stock price. With this stop loss, you're protecting your gains and you're preventing large losses. I'm not going to go into too much details of stop losses, but these should get you started, and there's a plethora of material out there, from brokerage firms, that you could up on about order types.

Let's take a look at how you could use limit and stop loss orders with the Fibonacci retracement.

Assume you got into NewLink Genetics (**NLNK**) based on the Fibonacci retracement shown below:



The stock more than doubled in just a matter of a few trading sessions. Now, you're willing to buy at \$12.84, so you set a limit order to buy 100 shares of the stock at that price. NLNK traded down to that price, so chances are, you would've gotten filled. Using the Fibonacci retracements, you could set your outs. For example, if you think NLNK could head lower if it breaks below \$12.75 (below its 50% retracement), you would set a stop loss order at that price.



You would've got stopped out of your long position once it traded below \$12.75.

Here's what happened with the stock after:



Using a stop loss would've saved you a pretty penny here.

Similarly, let's assume you were willing to buy Liniu Technology Group (**LINU**) at \$1.75.

You would set a limit order, and since LINU traded below that price, you would've been filled on your shares at \$1.75. Now, to be on the safe side, you set a stop loss at \$1.65, just below the 50% retracement.





Again, you'll see how you could've limited your losses and saved yourself some money. With the Fibonacci retracement, it's pretty easy for you to decide your entries and exit points. Now, I'm not going to tell you where to buy or sell, that's something you'll need to learn on your own...everyone's risk parameters are different. Some may find using the 50% more helpful, while others might find using a stop below the 61.8% level might be more helpful, just in case the stock bounces off of that level. It all depends on how much capital you have, and how much you're willing to risk.

Next, we're going to take a look at what moves penny stocks, and how you could find potential trading opportunities around these events.

Chapter 4:

Identifying the Catalyst and Trading Opportunities

Catalysts are what move stocks. Just like in science, there's a reaction to an agent. In the penny stock world, that means a stock moves higher or lower based on some event, whether it be earnings or company specific news. You're going to need to learn some basic catalysts that move stocks and learn why these affect stocks.

An **earnings release** is one catalyst that'll move a penny stock, significantly up or down. If you hear a company reports positive revenue, or beats analyst expectations, the company is headed in the right direction, and market participants might be willing to buy the stock. Earnings releases are reported quarterly. Remember what I said earlier about sticking to NYSE and NASDAQ listed stocks? Well, this is one of the reasons why. OTC and Pink sheet penny stocks aren't required to report quarterly, whereas NYSE and NASDAQ penny stocks are required to report. This gives investors a fair chance to analyze the company, and either make an investment or trade the stock.

- If a stock misses analyst expectations, reports negative revenues or cuts their guidance, that typically pushes the penny stock lower, and you definitely don't want to get long on this. I would wait to see if it falls into oversold territory, and then potentially buy the stock.

For example, take a look at Izea Inc (**IZEA**). The stock reported earnings, and was up over 20% in just two trading sessions:



The stock beat analyst expectations (pretty bullish), and market participants liked their figures, which sent IZEA higher.

If a company receives **financing** at or near its stock price, it could be bullish news. If a company is raising capital to expand its business, that's generally good news. However, you need to be wary of financing. Generally, if a company announces a secondary offering, and prices it below where the stock is currently trading, the stock is probably going to fall to that price. For those who don't know what a secondary offering is, it's simply a corporate action in which a company is looking to raise capital through the sale of securities in the secondary market.

When a penny stock raises a significant amount of capital, in relation to its market cap, there's a higher probability for the company to succeed over the long term. Again, remember to be cautious when a company raises money at a steep discount to the current stock price, it's a sign the current price is overvalued.

If a penny stock company announces a **partnership** with a large company, penny stocks typically rise significantly off of this catalyst. Deal announcements indicate to traders and investors means that another company is interested in this company's products, which brings hype around a penny stock.

Take Plug Power and Amazon.com for example. In April 2017, Amazon announced it acquired the right to buy a stake in Plug Power. Plug Power (**PLUG**) went bananas off of this news and more than doubled in a few trading sessions:



Industry news also affects penny stocks. If an entire industry is down off of some negative news, chances are that penny stocks in that industry will sell off, in sympathy. Now, if there's positive news in the industry, the stock prices should rise. This happens a lot with cannabis-related penny stocks. Moreover, you'll notice this with health care stocks and financial stocks, just to name a few. We've seen this recently with marijuana penny stocks when several states legalized the drug and police equipment/body camera stocks when there was a heated national debate due to several questionable police brutality cases.

Corporate actions are some catalyst events that you'll want to follow. For example, if a company announces a **reverse stock split**, this could cause a penny stock to pop. A reverse stock split reduces the number of shares outstanding, and increases the stock price by a specified factor. Let's assume a company announces a 1-for-5 stock split, when it's trading at 50 cents per share, and it has 10M shares outstanding. After the reverse stock split, the stock will trade at \$2.50 and the company would only have 2M shares outstanding. Notice how the market cap remains the same. It's \$5M before and after the split. However, you could find a trading opportunity and potentially buy a stock due to a reverse split.

Changes in the management team is another catalyst that could move a penny stock. This could go either way, it all depends on how the market feels about these changes. For example, if a bigtime new executive is brought in to turn around a company, that

could drive the stock price higher, and momentum traders (those buying if the stock makes a new high or continues to have bullish trading) could continue to push the stock higher.

However, the opposite could happen too. If the market likes the current CEO, or another executive, who's being replaced, the stock could sell off. But this could allow you to get shares for cheap. If you see this, you might want to look for a support area to buy the stock, and stop out if it falls below the support area, or wherever you see best fit, based on your risk parameters.

FDA announcements move biotech and pharmaceutical penny stocks. When you're first starting out, I suggest you stay away from biotech or pharma penny stocks, until you understand the lingo and understand which FDA announcement moves stocks. You need to be able to discern the good news and bad news in a biotech and pharma penny stock. Now, going over the entire list of key FDA events is out of the scope of this book, but there's plenty of free material out there that could help you.

Let's take a look at one of the most important FDA events: FDA approval. If a company applying for approval for one of its treatments, and it gets accepted by the FDA, the stock price could go up over 100% in a matter of minutes. However, if the company's FDA filing get rejected, it could drop over 30%. You'll need to be aware of these events, and if

you see a penny stock down over 50%, don't automatically think you're getting it for cheap. See if it had any FDA news.

A **short squeeze** could also be considered another catalyst that might move a stock, but we're going to go over this in depth in the next chapter, because if there's a high short interest in a penny stock, it could double or even triple in a matter of days. Don't worry if you don't know any of this lingo, it'll all be explained soon.

Here are a few other positive catalysts that might indicate a stock's price might rise:

- If the stock makes a new 52-week high.
- A stock making higher highs and higher lows.
- A short squeeze that could drive the stock higher (more on that later)
- If a stock holds at a support level or breaks through a resistance level.
- Shorter-term moving average crossing above the longer-term moving average

Here are a few negative catalysts that might send a stock lower:

- A stock that can't hold its support level and breaks below it.
- Shorter-term moving average crossing below the longer-term moving average
- The stock makes a new 52-week low
- A stock that's making lower lows and lower highs.
- Volume drying up

Chapter 5: Short Squeezes and How You Could Profit Off of Them

Before we get into the details of a short squeeze, you need to understand just a little bit about short selling. If you're looking to short sell a stock, you need a margin account to be able to borrow shares from your broker to short sell stocks. As we stated earlier, you're looking to sell something that's not yours. However, I don't suggest you go out and short stocks, unless you've got a cushion and quite a bit of disposable capital. You don't want to leverage and borrow capital from your broker, unless you know you could pay them back, if your position goes against you.

Now, let's get right into it and define what a short squeeze is. A **short squeeze** occurs when short sellers cover their positions by buying back their stock quickly. If the stock builds momentum to the upside due to a positive catalyst, short sellers might be forced to buy back their shares, leading to more momentum to the upside...this could be very profitable, if you get long at the right time...Stocks, theoretically, could go to infinity, but they could only fall as low as \$0. It could get pretty scary if you're short selling a penny stock, and a short squeeze happens, so stay away from short selling until you've got the hang of trading penny stocks and could afford to lose on a short trade, if it runs against you!

In other words, a short squeeze is a situation in which short sellers are actually being “squeezed” out of their position...once they can’t take the pain any longer and the losses amount, they’re forced to close out, usually at a loss. One way to see if a stock is ripe for a short squeeze is by looking at its short interest. Now, the **short interest** is simply the amount of shares short in relation to its floating shares.

A high short interest (typically above 20%) could lead to a short squeeze and a significant rise. The reason being: if traders borrow shares to short a stock, thinking the stock will fall, but the stock keeps rising, rather than falling, traders are more likely to buy back their shares, rather than continuing to short the stock. Traders could lose their shirts over this, and that’s why you want to buy if you spot a short interest.

You generally want to see a high short interest coupled with a low number of floating shares, say below 50M. However, this all depends on the stock and how it trades.

There’s no one number that tells you if a stock is ripe for a short interest, but these are some simple heuristics you could use.

Let’s run through how you could see if a stock could be prime for a short squeeze, and how you could potentially get in long. For example, Helios and Matheson had a high short interest, and once a positive catalyst was released, the stock skyrocketed.

Here’s a look at **HMNY**’s share statistics:

Shares Outstanding 8.94 Mil	Float 2.34 Mil	Shares Short 750,494.00 As of Sep 15, 2017
Short % of Float 32.07	Short Ratio 1.00	Shares Short Change 11.11% From Aug 31, 2017

Source: Morningstar

Over 32% of the shares were short and the stock only had 2.34M floating shares at the time! This stock was ripe for a short squeeze, and all it needed was a catalyst.

HMNY announced that it agreed to acquire a majority stake in a movie subscription technology company, MoviePass Inc, in August 2017.

Here's a snippet of that press release:

"MIAMI & NEW YORK--(BUSINESS WIRE)--

Helios and Matheson Analytics Inc. (HMNY) announced today that during the 2-day period following its announcement of an agreement to acquire a majority stake in movie subscription technology company MoviePass Inc., the MoviePass movie subscription service surpassed membership expectations slated for the next 15 months and achieved outstanding movie theater attendance.

This Smart News Release features multimedia. View the full release here:

<http://www.businesswire.com/news/home/20170823005564/en/>

Following the announcement of the new MoviePass \$9.95 per month subscription price, during the six-day period from August 15, 2017 through August 20, 2017 (the “Measurement Period”), two theater chains that have partnerships with MoviePass reported outstanding attendance by MoviePass subscribers.

In one of the theater chains, during the Measurement Period, the number of theater seats filled by MoviePass increased from 206 to approximately 4,137, representing an increase in excess of 2,000% as compared to the preceding seven-day period.

In the other theater chain, during the Measurement Period, the number of theater seats filled by MoviePass increased from 203 to approximately 1,795, representing an increase of approximately 884% as compared to the preceding seven-day period.

These two theater chains have theaters located in Arizona, California, Florida, Illinois, Michigan, Missouri, North Carolina, Pennsylvania, Indiana and Texas.

“We did not foresee a phenomenon of this magnitude coming,” said Ted Farnsworth, Chairman, and CEO of HMNY. “We set the expectation for MoviePass to achieve at least 150,000 subscribers 15 months down the road. The fact that this has occurred in a few days after announcing the \$9.95 per month pricing model reinforces our belief that we will disrupt the motion picture industry as we know it.”

“From day one with MoviePass, my goal was to afford consumers the best possible deal we could offer them,” said MoviePass CEO Mitch Lowe. “We are gratified, and frankly amazed, as to the string of events that has unfolded and the volume of movie lovers we have been able to reach. Putting them in theater seats has always been our mission and this is a dream come true.”

About Helios and Matheson

Helios and Matheson Analytics Inc. (HMNY) is a provider of information technology services and solutions, offering a range of technology platforms focusing on big data,

artificial intelligence, business intelligence, social listening, and consumer-centric technology. Its holdings include RedZone Map™, a safety and navigation app for iOS and Android users, a community-based ecosystem that features a socially empowered safety map app that enhances mobile GPS navigation using advanced proprietary technology. Through TrendIt, Helios and Matheson has acquired technology addressing crowd and migration patterns and consumer behavior in real-time. The patented technology predicts population behavior, along with a crowd's population size, origin and destination. HMNY is headquartered in New York, NY and listed on the Nasdaq Capital Market under the symbol HMNY. For more information, visit www.hmny.com.

About MoviePass

MoviePass is a technology company dedicated to enhancing the exploration of cinema. As the nation's premier movie-theater subscription service, MoviePass provides film enthusiasts the ability to attend unlimited movies. The service, now accepted at more than 91% of theaters across the United States is the nation's largest theater network. For more information, visit www.moviepass.com."

Source: [Business Wire](#)

Now, that's pretty bullish news. Not only that, but MoviePass noted, a few weeks after that press release, that it reached 400K subscriber, up from just 20K, in just 30 days.

That means more potential revenues for HMNY, and market participants were pricing this in. With this extremely positive news, coupled with its high short interest and low number of floating shares, you could've made a hefty profit by getting long, in hopes of an epic short squeeze.



The stock nearly doubled in just a matter of a few trading days. Now, remember our Fibonacci retracement rule? We want to get long on a pull back if the 50% retracement holds at support. That in mind, I would've gotten long just around \$5.52.

Here's what happened after:



Yeah. The stock nearly doubled again. That's the beauty of using **Fibonacci retracements** and potentially getting into a stock on a positive catalyst with a high short interest.

Let's take a look at another example that you could've potentially got in on the long side and rode the wave of momentum as short sellers covered their position.

TOP SHIPS Inc (**TOPS**) had a short interest of over 100% in May 2017. That means there were more shares short, in relation to its floating shares. Moreover, it only had 120K shares floating. That's an extremely low float stock! Here's a look at the short metrics provided by Morningstar.

Short Interest TOPS	
Shares Outstanding	1.79 Mil
Float	0.12 Mil
Shares Short (as of 05/15/2017)	0.15 Mil
Short % of Float	124.69%
Short Ratio	1.00
Shares Short Chg. (from 04/28/2017)	11.92%

Source: Morningstar

TOPS was down over 99% year to date, at the time. It was pretty oversold, and it couldn't really get much lower than that, unless it went bankrupt and fell to \$0. With a low amount of floating shares and abnormally high short interest, this was prime to be the mother of all short squeezes.

Check out TOPS on the daily chart.



Short sellers were out of luck, when a positive catalyst was released in May 2017. TOPS bought a controlling interest in Eco Seven Inc, a Marshall Islands company that owns M/T Stenaweco Elegance, a large production tanker.

TOPS made multiple acquisitions between February 2017 and May 2017. That means it was expanding its business, which is bullish for the stock. Here's a list of acquisitions TOP SHIPS made over that period.

- Nearly 50% ownership interest in M/T ECO Holmby Hills, a 50,000 dwt newbuilding product/chemical tanker scheduled for delivery from Hyundai Mipo Dockyard Co. Ltd. ("Hyundai") in January 2018;
- 90% ownership interest in M/T Stenaweco Elegance
- Total ownership interest in M/T ECO Palm Desert, a 50,000 dwt newbuilding product/chemical tanker scheduled for delivery from Hyundai in July 2018.

- Nearly 50% ownership interest in M/T ECO Palm Springs, a 50,000 dwt newbuilding product/chemical tanker scheduled for delivery from Hyundai in April 2018;

TOPS had an epic move the day of the catalyst.



Again, if you got in off this catalyst, and used the Fibonacci retracement pattern, and found an entry point and an exit point, you would've banked on this.

Short squeezes in penny stocks are just one way to potentially double your investment in just a short amount of time. Now, you'll need to learn from these examples, and then go out and study how to look for short squeezes. Some things to keep in mind: look for a low number of floating shares, high short interest and a positive catalyst. If the stock rises more than 50% and you missed out, don't chase it. Wait for a pull back and look to see if the stock holds its support levels around the 50% or the 61.8% area. I'll let you decide which one's best suited for your risk profile.

Chapter 6:

The Mindset of a Penny Stock Trader

When you're trading penny stocks, you need to change your mindset. You need to figure out whether you could handle it if a big loss wipes out a major chunk of your portfolio. Are you able to take on risk and stay composed when you take losses? Can you keep your ego in check when you're cutting your losses? Could you approach trading with an open mind? Could you dedicate time to learning about trading penny stocks? Well, you'll need to figure out the answers to these questions, and then some.

Your psyche plays an important role in your ability to become a penny stock trader, so I think it's something you need to address well before you ever make your first trade and trade against more experienced market participants.

Here's a list of questions that I think you need to answer:

Am I disciplined to the point that I'll be able to stick to my plan?

If you don't have a clear plan or strategy, don't trade. Figure out what your strategy will be, work at it, and approach penny stock trading with grit until you've found a successful strategy. Since you've already got a good base on technicals and the Fibonacci

retracement, you might want to start using those and practicing finding points where you'll get into the stock.

The last thing you want to do is trade for the hell of it. That's just pure gambling.

I've seen this time and time again with some beginning traders. They get bored during the day in front of their screens, and throw on positions that aren't part of their trading style. If you decide to become a technical trader who also looks at catalyst events, stick to that. Don't start style drifting and putting on trades that do not follow your strict set of rules.

Pretty much, you'll need to control your impulse to get into a stock and not force trades. If you feel the need to trade and your ideal setup hasn't materialized yet, sit on your hands, or take a walk. Style drifting is one of the reasons why so many people lose money in the stock market and then have the nerve to say that it's risky and it's gambling...The stock market isn't gambling, if you go in with a plan and have clear entries and exits.

For example, I follow a simple set out rules for my bread-and-butter trades. I'm looking for penny stocks that shot up over 50%, then I'm looking for the stock to pull back to a specific Fibonacci retracement pattern. I use other strategies, but if a potential trade doesn't meet that basic criteria, I'm not playing the game.

Don't get me wrong, I'm not always 100% perfect at following my trading rules, and you'll have times when that might happen to you.

Sometimes we get emotionally tied up in things, but for the most part, I know when to cut my losses and sit on my hands, and you'll learn this over time.

The bottom line: you'll need to practice being disciplined, but there will be a handful of times you might not be disciplined. Don't worry about that, you need to learn to catch yourself before you put on a trade that might be outside of your trading rules.

Could You Deal With Failure?

Chances are, when you're first starting out trading penny stocks, you'll make some mistakes. In many people's eyes, if you take a loss, it might be considered a "failure." Don't think that just because you lost on a trade that you're a failure and can't trade penny stocks.

You need to keep at it. Heck, I even had some losing trades when I first started out. But you have to keep at it, and every time you lose on a trade, you need to figure out the reason behind why you lost, and what you could've done better on. Point being: don't give up if you have a stream of small losses, just focus on getting good at managing your risk and perfecting your strategy.

Moving on, there are some rules that you might want to follow, when you're trading penny stocks.

- **Be able to cut losses quickly.** I can't stress this enough. Cut your losses quickly, once it goes against what you're looking at. For example, if a stock breaks below the 61.8% retracement level, I'm probably not going to stay in, because it's violated one of my trading rules. I don't want to be there holding the bag and watch the stock fall further after it's broken the support area. No matter how informed you are, sometimes, you're just going to be plain wrong. Just make sure you know when you're wrong and take off your position. You'll need to realize when you're wrong quickly. Thereafter, you should learn from your mistakes, and journaling your trades is the best for this.
- **Practice being conservative.** Risk management is key. You should never risk your entire portfolio in one or two names. You should practice holding maybe 5% of your capital in a single position when you're first starting out. For sure, you should never hold more than 30% of your portfolio in a single position, when you're first starting out. Until you prove to be a consistently profitable, be conservative with your money.

Don't fall into the trap of thinking if you put your entire or half your portfolio in one position, you'll double your capital overnight. You need to give yourself some room for error.

Most importantly, no matter how much of your portfolio you allocate to a position, always cut your losses quickly. Keep your losses small so you don't fall into one of the most common pitfalls: holding onto a stock, hoping you'll profit on it. If you're right, chances are the price action and your profit and loss (PnL) will show.

- **Do your due diligence.** There's no excuse here. It's so easy to do your research, you could go on the SEC's website to research the company, or even go to the company website. It's not just about looking at charts, there's a wealth of information, and you need to be an informed penny stock investor.

Research every potential penny stock that you think could skyrocket. Whether it be looking at charts, or looking for catalysts. Do your due diligence. If you're not thorough with your research, you could end up losing in the trade. The more you understand your trades, the higher your chances of becoming a successful penny stock trader. The last thing you want to do is get into a stock, thinking it has a bullish chart pattern, only to come into a trading day, seeing the stock down 20%, because you didn't know it had earnings, or other company or industry news.

- **Stay nimble.** Since penny stocks and expected moves are dynamic and change so quickly, you have to stay nimble. Always look to preserve your capital, so that you can take advantage and get into high probability trades, like the Fibonacci retracement. Again, learn to cut your losses quickly, it's not a failed trade if you lose on it. You could lose money on a stock, and it could still be a good trade, you just can't control what the markets do.

- **Be able to take both sides of the trade.** This is key to trading penny stocks. Now, when you're starting out, you probably don't want to short a stock due to the high amount of risk involved. However, once you're more comfortable and have some risk capital, you could look to short penny stocks. Just make sure you're limiting your losses, and not let the stock go against you too much. Stocks go up and down, momentum shifts, bulls win sometimes and bears win sometimes.
- **Always take profits.** You've probably heard people tell you to let your position ride if it's winning. Forget what anyone told you, if you see profits and you're satisfied, take your profits. Trading penny stocks is about making money, once you're up, take that money. The last thing you want to happen is turn a winner into a loser, that'll eat at you for days. It's best to get out early and take profits than to get out later for a loss.
- **Keep it simple.** There are so many different technical analysis tools out there, and I can't even come close to going through each and everyone in this book. Heck, I can't even keep track of all these indicators. I keep it simple. Basic support and resistance, Fibonacci retracement, trend lines, and maybe some moving averages. For the most part, my charts are pretty simple, and my A trades are simple.
- **Figure out your risk profile.** To be a good penny stock trader, you need to know your risk profile. Are you risk averse? Risk-neutral? Risk-taking? In other words, do you not like to take too many risks? Are you indifferent about how risky a stock is?

Or do you love risk? That's something for you to decide. Generally, I'd suggest new traders stay risk averse to risk neutral when they're first starting out.

- **Stay at it and continue learning about the markets.** There's an old saying that goes something like this: *90% of traders fail*. Now, there aren't any real statistics to back this up, but you should keep this in mind. If you want to be successful at trading penny stocks, you'll need to dedicate time to learning about trading penny stocks. You might even want to find a mentor because they could give you tips on how to avoid common pitfalls.

Keep a Trading Journal!

This is one thing I feel like I need to highlight. I think it's extremely important that you journal all your trades, and write down your thoughts. This should help you better understand yourself and how trading opportunities and patterns change. Most beginning traders fail to journal their trades, so they're never learning from their mistakes...If you don't journal or learn, you're doomed to fail and blow out your account.

Take it from someone who's been through the trenches, it helps a lot to have a trading journal. This is one of the ways I learned to trade penny stocks. I wrote down everything, and took notes on which trades worked and which ones didn't. I've probably also wrote about how I felt that day, things like not getting enough sleep cause the kids had a nightmare. You might think these are small details, but they could ultimately affect your trading.

As penny stock trades, we need to adapt to the markets and trading opportunities. Review all of your trades, and try to find mistakes, if any, that you might have made. If they're good trades, make sure you write down why they were good. It doesn't have to be an entire essay, just a few sentences noting what you did wrong, what you did right, what you could've done differently, whether the trade you took was a high probability trade, how much you made or lost on the trade. These are just some ideas for you to get started with your journaling. You could write whatever you want, after all, it is your journal, and it's there to help you become a better trader.

Don't just write your thoughts down and then forget about them. Study your notes. Maybe there's something you want to do differently with your trades in the future. You need to go back and look at your journal entries. I know it sounds lame and boring, but you have to do it if you want to be successful.

What Now?

Well, you should have the basics of penny stock trading down pat. You should know the basics of technical analysis, specifically, how to draw support and resistance lines, trend lines, plot moving averages, and most importantly: how to draw Fibonacci retracements on penny stocks that had monster moves.

Don't look at this book as a be all and end all because it's not. You're going to have to put in time, dedication and get screen time. Before you go out and start trading, practice looking at charts, finding the right trades and your mistakes, and play them out, before you even open up a brokerage account.

Moreover, feel free to go back and look through the concepts that we've touched upon in this book. I know it's a lot at first, but if you keep at it and remain gritty, you're well on your way to potentially being a successful penny stock trader.