

Green's Penny Stock STARTER KIT

By David Green

Everything You Need to Know to
Get Started Trading Penny Stocks



SecretStock
Promo.com

Your Path to Penny Stock Riches!

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Your Path to Penny Stock Riches

Thank you for becoming a Free Member of SecretStockPromo.com. You have taken the first step to true penny stock wealth.

Introduction

Your curiosity for my program has led you here, and it's a great place to get started trading penny stocks. Whether you are an experienced trader or a complete newbie there is plenty of useful information available below. I'll cover all of the basics, including setting up a brokerage account, a high-level overview of penny stocks, simple risk management techniques, and essential trading concepts and definitions.

My goal for free members is to have a good understanding about penny stocks in general and to understand the differences between conventional stocks (NASDAQ, AMEX, etc.) and penny stocks. I'll also go over what I call "Mind Matters", which are more or less some emotional safeguards to practice when you begin trading. Having a plan in place before you trade each stock will save you from a ton of future headaches, trust me!

It's important that you put in the work and familiarize yourself with the language and culture of penny stocks, so that you are no longer a visitor but a full time resident. Upon starting if there are any terms or keywords you don't understand please refer to Investopedia.com for more information.

While penny stocks have certainly become more popular the past few years, the path to achieving greater penny stock wealth is rarely shared. There is no other system in the world that is quite like mine. As a free member you are peeling away layer 1 out of 3, so enjoy getting your feet wet, hopefully make some money along the way, but please don't stop there.

"Congratulations on ditching lazy habits and driving towards better financial success!"



What are Penny Stocks?

As promised above, it's important to start from the very beginning so that you understand what's ahead. The term "penny stock" is in and of itself a misnomer because there actually is no generally accepted definition. However, there are at least 3 central criteria that various individuals and organizations within the trading community use to define penny stocks.

Penny Stocks Defined by:

1. **Market the Stock trades on:** Many experts believe that any stocks trading on non-traditional markets (i.e. the OTCBB, or the OTC, or the 'Pink Sheets,' or the CDNX) are considered to be penny stocks.
2. **Price Per Share:** Some consider any shares that trade under a certain price to be considered penny stocks. For example, some institutions, including the SEC, deem all stocks that trade for less than \$5.00 per share to be penny stocks.
3. **Market Capitalization:** A company's size is determined by its market cap. Penny stocks typically fall in the range of Nano Cap, Micro Cap or Small Cap value, which again are approximations, but is a valuation varied between (less than) \$50 million and \$300 million.

Multiply the total number of outstanding shares by the current price per share (PPS) to calculate market cap. For example: 50,000,000 outstanding shares of XYZ at \$0.20 cents each give XYZ, Inc. a market cap of \$10 Million.

What I consider a penny stock is any stock that is priced for \$2.00 or less and is traded on the Over-the-Counter Bulletin Board (OTCBB) or Pink Sheet markets, with a market cap generally lower than \$10 million and no higher than \$100 million.



Green Defines Penny Stocks by:

The market the stock trades on

- ❖ Over The Counter (OTC)
- ❖ Over the Counter Bulletin Board (OTCBB)
- ❖ Pink Sheets
- ❖ NASDAQ Small Cap

Quick Fact: There is no physical trading floor or meeting place for this market. These securities are traded by broker-dealers who negotiate directly with one another over computer networks and by phone.

The price per share

I view any stock trading for less than \$2.00 to be a penny stock. In many cases, penny stocks stay true to their name as most do trade for less than \$1.00, sometimes for less than a penny (*sub-penny plays*).

Quick Tip: Some investors like the sub-penny to 10-cent range for potential “home-run” gains, while others prefer stocks trading around 50 cents to \$1.00 for safer 10 to 25% gain opportunities. Find your sweet spot, and don’t be afraid to mix it up.

Market Capitalization

I find that most penny stocks have less than \$50 million in total capitalization, but this will vary from time to time, as any range below \$5 million up to \$300 million can play out.

A combination of the above criteria is a great way to do a quick check on any stock you consider investing in, and determining if it’s the right fit. The only characteristic that I feel holds true from one definition to the next, is that penny stocks are High Risk, High Reward Investments.

Opening a Brokerage Account

While some brokerages may be great for trading Apple (AAPL) stock, don't assume that they are best suited for trading penny stocks as well. In some cases, many online brokerage firms will try to overcharge investors for penny stocks. You may want to consider having a platoon system in place where you use something like Scottrade for Nasdaq equity trades and Zecco for just penny stock trades.

Online Broker Comparison Chart

Broker	Commissions	Commissions stocks < \$1	Minimum Funding	Maintenance/ Inactive Fees	Extended Hours
Zecco	\$4.95	\$6.95	0	None	None
E*TRADE	\$9.99	\$9.99	\$1000	None	\$0.005 per share surcharge
ChoiceTrade	\$5	\$5	0	None	\$0.005 per share surcharge
TD Ameritrade	\$9.99	\$9.99	0	None	No additional fees
TradeKing	\$4.95	\$4.95 + \$0.01 per share surcharge	0	None	No additional fees
Scottrade	\$7	\$7 + 0.5% of principle	\$500	None	No additional fees
Fidelity	\$7.95	\$7.95	\$2500	None	No additional fees

*Updated for 2011

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1. **Zecco** is one of the best brokerages for beginners with many free services. Their virtual trading feature provides a safe environment to test and improve trading skills and strategies, and an online community where users can learn from each other. Zecco was also named *The Lowest Cost Brokerage For Occasional Trader* by Barron's magazine in 2010.

Current offer of \$75 for each friend that opens and funds a Zecco account with a min. \$500.

Click Here to open a new account

2. **E*TRADE** is one of the best-known online brokers in the country and scored the highest on Kiplinger customer-service test. They also boast one of the best mobile apps in the industry and have very powerful charts and trading tools. While \$9.99 commissions are a bit high E*TRADE also offers banking products if you are interested in more than just equity trades.

*New accounts opened with \$2000 minimum balance get free trades for 60 days. Also, if you make 30+ trades per quarter you'll get free access to Power E*TRADE Pro 5.0, which includes Level II quotes for Pinksheet and OTCBB stocks (as much as \$69/month value).*

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3. **ChoiceTrade** is the least expensive when it comes to trade commissions at only \$5. And there are no penny stock surcharges up to 500,000 shares. The downside here is that they charge quite a bit for all their information services, so if you are looking for a brokerage that includes advanced trading tools you may want to look elsewhere. Nevertheless, if making cheap stock trades is priority #1 they are a great choice.

Click Here to open a new account

4. **TD Ameritrade** is one of the most respected online stock brokers in the country. And while not a great option for beginners, like Scottrade or TradeKing is because of their investor community. The big advantage here is that they don't have penny stock surcharges like Scottrade, TradeKing and others have. Ameritrade offers very powerful and comprehensive trading tools and has Barrons 4 star rating 5 years running.

Current Offer - 30 days of commission free equity trades when you fund your account \$2000.

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*Including E*TRADE, for residents of Mexico, Europe, or Hong Kong I also recommend:*

Interactive Brokers is one of the brokers with *pay-per-share commissions*: customer pays \$0.005 per share with \$1 minimum per order and no maximum. This makes all orders of less than 600 shares cheap. Orders of 2,000 shares will cost around \$10. And orders of 5,000 shares will be around \$25. The biggest provision I see with this brokerage is a \$10,000 minimum to open an account and a somewhat taxing registration process.

If you are a resident of Canada I recommend:

Questrade charges no more than \$9.95 per trade, with only a \$1000 minimum account deposit. They also allow OTC and OTCBB stocks. Just be aware of a \$25 surcharge for trades executed through the trade desk.

It's important that you are conscious of the different trading rules put in place by various brokers. ***Commissions per buy and sell transaction can vary greatly***, affecting your bottom-line. \$10 versus \$5 per 100 trades is a difference of \$500! You'll also want to pay close attention to surcharges put on penny stocks priced for less than \$1.

While online brokers like TradeKing and Scottrade might be a great choice for trading stocks over \$1, they charge too much on true penny stocks. TradeKing has a 1-cent per share surcharge on stocks less than \$1 (*1000 shares of a penny stock would cost \$4.95 + \$10*). Scottrade charges an additional ½ percent of the principle for penny stocks (*\$1000 penny stock buy would cost \$7 + \$5*).

When it comes to overall commission rates, trading tools, usability and current offers I think **Zecco** is the strongest choice for penny stock trading. Nevertheless, don't be afraid to try multiple brokers and find out what you like and don't like.

For a full list of brokerage reviews I recommend two websites:

www.brokerage-review.com

www.stockbrokers.com

Brokerage Questions:

Should I open a cash account or margin account?

I'll make this simple, **CASH ONLY!** When it comes to trading penny stocks never use borrowed money (margin).

How much money should I fund an account with?

Everyone is in a different financial situation, but generally speaking I think most traders start with at least \$500 to \$1000 in their trading accounts. That way they can spread that amount out over at least 2 to 3 trades in the beginning. It's important to diversify any investment so that you aren't at a complete loss should the stock go down.

Why can't I trade Pink Sheet stocks online?

Many brokers only allow pink sheet stocks to be traded over the phone because of their enormous volatility. Commission rates are also usually higher, so be aware. For example, Scottrade charges \$22 per trade plus .5% of the principle amount. Find out before the bell.

Are there Restrictions on the Number of Weekly Trades that can be made?

In a nutshell, YES. The SEC has imposed Day Trading Restrictions on US stocks, which means that if you complete more than 3 day trades within 5 business days you are tagged as a pattern day trader, and must maintain a \$25,000 account balance or have your account frozen 90 days. I understand that most penny stock traders maintain minimal cash balances, which is why I limit stock pick ideas to no more than 2 per week. Of course, that isn't to say that some investors don't have multiple trading accounts already in place.

Should I just ride out my stock picks?

No, you do not want to be holding a portfolio full of volatility plays (penny stocks). Almost all of them will go down eventually before rebounding on the next round of news or stock promotion. Always look to take timely profits. I think you should never hold more than 1 penny stock at a time. Never hold and hope. Cut your losses if need be and move on! Penny stocks are much too volatile and should only be played over the short-term.

Trading Terms

The same rules and principles that apply to trading large Blue Chip companies do not necessarily apply to penny stocks. The safest buy is a limit order, which is a price you bid that must be reached before any trade is executed. A limit order provides a good safeguard against the volatility of these low priced equities. The only problem with a limit order is that if action moves too quickly, you could miss out entirely on a current run. That's where a market order comes in. It is a guarantee that a trade will be executed no matter what. This way you can assure yourself of some action. The biggest downside is that there's no assurance that a market maker won't fill your order at a price further away from the current price.

Bid/Ask – The bid (buy) is the highest price a trader is willing to pay for a stock, and the best possible price you can achieve selling stock at that instant. The ask (sell) is the lowest price a trader is willing to sell, and the best possible price you can purchase the stock for at that instant.

Limit Order – When you limit order a stock that lets the market maker (MM) know that you want to buy or sell the designated number of shares you hold at a specified price (the limit price). ***The majority of your penny stock trades should be limit orders***, especially with a wide spread between a penny stock's bid and ask price.

Buy Limit Order example:

Let's imagine that you want to purchase 500 shares of Jammin Java Corp. (JAMN.OB) at \$1.70 and not a penny more. The stock is currently trading at \$1.75 per share. After your order is placed 2 things can happen: If JAMN shares do not hit \$1.70, your order will go unfilled. If the share price does in fact return to \$1.70, your order will then fill at that limit price, or on rare occasions an even more favorable price.

Market Order - This order type is used to execute a buy or a sell at whatever the current market price is. This is usually the fastest order type to execute. The risk however is that you cannot control what price your order will be executed at. Not as much of a risk with slow moving Blue Chip plays, but can certainly cause a whirlwind of issues with fast moving penny stocks.

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Good 'Til Canceled (GTC) – This term is pretty self-explanatory. The order to sell or buy will stay in place until the trade is executed or the trader decides to cancel. If a GTC instruction is not placed the order will only be good through the end of the trading day (Day Order).

Stop Order

Stops, also referred to as stop losses, are used to either lock in profits or limit further losses. If a stock appears to be in a downward spiral stops can protect traders from even greater losses. At the same time, if the stock is performing really well traders can adjust the stops as the market moves up towards the right to lock in greater profits. *It's especially important to enter a sell limit order almost as soon as you buy a stock, especially if you are unable to monitor your trading account (vacation, holidays, sick).*

Quick Tip: With penny stocks you are only allowed 1 order at a time. You can either protect your profits or protect from losses. Also, most brokerage houses (including Zecco and E*Trade) require a sell limit order to be within 0.01 cent of the current bid price.

The screenshot shows a trading platform interface with the following elements:

- Navigation:** Home, Trade, My Account, Quotes & Research, Knowledge Center. A search bar for "Detailed Quote" is on the right.
- Tools:** Refresh, Fields, Webcast buttons.
- Stock Order Entry:**
 - Buy/Sell: Buy (with Calculator button)
 - Shares: 500 (with ADN checkbox)
 - Symbol: JAMN (with Find Symbol button)
 - Order Type: Limit (with dropdown arrow)
 - Limit Price: \$ 1.85
 - Duration: Today (Good until 4:00 PM ET) (with dropdown arrow)
 - Review Order button
- Market Data for JAMN:**
 - Last: 1.86
 - Change: 0.03 1.64%
 - Bid/Ask: 1.86/1.90
 - Ask/Size: 1.87/500
 - Volume: 2,144,898
 - 52 week high: 1.82
 - 52 week low: 0.30
 - Last of 10: 07 PM ET 05/17/2013
- Account Balance Summary:**

Total Funds Avail. for Trading	
Settled Funds Avail. for Trading	
Restricted Funds*	
Total Account Value	
- Open Orders, Positions, Alerts:** Each with a dropdown arrow.
- Advanced Help: Stocks & ETFs:**
 - What is a trailing stop
 - Stop and Stop Limit Order Requirements
 - Good Until Canceled Order Cancellation Schedule
 - Selecting an order type
 - Leveraged ETFs
- Footnote:** *Restricted funds represent recent Money Direct deposits and uncashed check deposits. These funds cannot be used to purchase stocks under \$5, non-marginable stock, unfilled stock or any options. For margin accounts, these funds cannot be used to satisfy a margin call letter. Scottrade reserves the right to impose additional limitations on these deposits. [Learn more](#) about restricted funds.

Mind Matters

Having a fixed emotional strategy is very important when it comes to trading penny stocks. As much planning and research that you or I do for a stock, in reality...there will still be losers from time to time. And while no one can control each outcome, you can certainly minimize potential losses, should they occur. And one of the best ways to do this is by having a firm grip on your emotions. What do I mean?

Plan your Desired Outcome

Let's say you've done your research on a stock that you either found yourself or I alerted you of and are now ready to invest in. While you can't predict the outcome, you can still set a percentage range. Perhaps you're looking for at least a 20% gain and no worse than a 10% loss, should the stock get hit hard. Sounds simple right?

Scenario 1: The stock opens up 10% and steadily makes its way to 20% gains. You should already have a sell limit order placed, but instead greed kicks in and now you want to see the stock reach 25% gains. Unfortunately, everyone else's sell orders kick in around the same time and the stock drops back down to 10% gains before you're able to make a move. It's still a solid double-digit gain, but had you stuck to the original plan you would have made another 10 points on your money.

Scenario 2: The stock opens flat and quickly makes a downward turn. If you stick to the plan you'll set a stop loss limit order for around 10% losses only. However, emotions kick in and you decide to ride it out "hoping and wishing" that the price will rebound. Unfortunately that rarely happens with penny stocks in the short-term, and now you're looking at a 30% loss on your money instead of 10%.

When it comes to money we all tend to get pretty emotional out there. I'm not saying to become a robot, but having a plan to fall back on instead of just relying on your emotions is pretty important. Keeping to your desired outcome will also benefit you over the long haul. I would lean more on the side of stability than on gambling. Sure, take a risk once in a while, but overall I encourage you to stick to the script.

Don't Second Guess Yourself

With a plan in place and proper assessment of each stock trade you undertake it's important to not psychologically second-guess yourself. Sometimes traders will get pretty uptight when it comes time to pull the trigger. It could be a lack of confidence in their position, bad math, or any number of things. If you've put in the work on a particular trade don't be afraid to succeed. Professional athletes talk about this all the time. All the preparation in the world doesn't mean anything if you don't just get out there and play the game.

Trust in yourself. The stock market, and particularly the OTC markets move much too quickly to not make pointed and decisive moves.

Focus on the Bigger Goal

For those of you that play black jack or poker, or have visited Las Vegas, have you noticed how often you are up at the beginning of the trip, typically down in the middle, and have either lost everything or just broken even at the end? I don't know about you, but that seems to happen to me all the time! I would speculate that this negative result is due to having no set goals. If the only goal is to have fun, up or down, cognitively you really won't know when to stop. And when that happens you usually lose. Stock trading is very similar. Without a solid plan or set goals you're basically gambling. If the end game was making sure enough money was earned to put food on the table or save up for that vacation, most of us would play the game very differently.

When we're not as emotionally involved and understand what the bigger objective is cooler heads tend to prevail. Emotionally, I suggest you set some mini goals, as well as larger goals. Figure out what you want to accomplish with a surplus of profits made from your penny stock trades. Goals will help you from going off the rails, and keep you from just gambling.

Quick Tip: I want you to set 3 rewards goals before you get started trading. What do you want to buy or do when you earn \$500, \$1000, and \$5000 in profit? Print a picture of your prize and place it on your desk so that you don't forget.

Risk Management

As you should be well aware of penny stocks are highly volatile creatures. The only thing you can be 100% sure of when it comes to penny stocks is that they are extremely risky. There are no guaranteed winners, which is why you should always have an exit strategy. **The traders that master risk and money management are likelier to have more long-term success in the markets.**

Risk Level

First and foremost, you need to decide how much you are willing to risk. As I even point out in the legal disclaimer, unless you are willing to lose your entire investment you should not invest in penny stocks. I would caution anyone from using money they can't afford to lose. Let's say you have \$1000 to play with. Instead of putting the entire amount towards 1 stock, try to spread that amount over 2 to 3 trades. That way you aren't at a complete loss should 1 go down in price.

With that said, determining a general risk level is not as cut and dry as it sounds. Not everyone is at the same stage in life. Age, income, marital status, debts, net worth, and personality all play a huge part in determining the appropriate risk level. Define your appropriate risk level right off the bat.

Frequency

My goal is to provide free members with at least 1 weekly stock pick idea. However, if I find that it's better to wait an extra week or more I will. If you were to create a win/loss rate chart, assuming a 50% win rate (a coin flip) you would see that the more trades you make over a year will naturally incur more losses, and longer losing streaks. This really goes hand in hand with your risk level. A day trader understands that there are going to be more losses, but at the same time a lot more winners.

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With penny stocks I try to minimize losses as much as possible, which is why I don't send daily stock alerts. Plus, most casual investors don't have the resources to manage daily buys and sells. On every trade there is a risk, but if you want to risk less don't trade as often and with not as much.

Money Management Risk Model:

Portfolio = \$5000

Drawdown Point = 25% of portfolio (-\$1000)

Weekly Trader = \$500 per trade

Risk Level = 20% loss per trade (10 consecutive losses)

In the example above there is probably 0% chance that anyone would have 10 consecutive losses, when only trading once a week. But the point is to show you that it is very easy to manage risk and figure out what your bottom line is when you get started. I would also suggest you do a profit management model to help you figure out what it would take to reach your goal of \$500, \$1000 and even \$5000 in profit.

Timing

A goal of any penny stock trader is to be the first one standing in line. This may sound like a pretty simple idea, but the Golden rule of stock trading is to buy low and sell high. Experts would agree that the best time to buy into a stock is right around the current support level, and the best time to sell a stock is right below the resistance level. These psychological barriers plus momentum can be capitalized on with timely trades.

Quick Tip: Sometimes the best timing is to wait till after a stock's initial run before buying. Sometimes a stock will dip in the price providing a better entry point. Also, to locate support and resistance levels, as well as a plethora of information easily, visit www.insidestocks.com

Closing

What you will find throughout all of the SecretStockPromo programs is that we actually care about you the subscriber. Many similar services offer a ton of lip service, but rarely break it down in terms that make sense to the average investor. I hope that this free guide sets the table for your eventual penny stock trading.

Keep in mind that “The Penny Stock Starter Kit” is in essence a dumbed-down version of my Premium Membership Package, which provides more extensive trading strategies (playing the gap/playing the open), case-by-case scenarios, technical indicators, and many more trading insights. I also provide premium members with direct access to me via email.

And please do not rely solely on the information I provide you. The Internet alone offers more than enough tips and guides about penny stocks, and stock trading in general. I would just be cautious of so called “Get Rich” programs. And of course please seek the advice of a financial professional.

Bulls Make Money, Bears Make Money, but pigs get slaughtered!

Don't let greed take you over. Stay committed to a smart trading plan that will minimize the risks while improving your profit potential. Never forget that some dollars is better than zero dollars!

I wish you the best in your penny stock endeavors!

Trade Wisely!

David Green

If you are really serious about learning more in-depth trading strategies and techniques for penny stock trading I recommend that you sign up for my “Premium Membership.”

[Click Here](#) to sign up.

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