PENNY STOCKS BEHIND THE SCENES 1:

A Glance into the World of Penny Stocks

Second Edition

by

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CONGRATULATIONS!

You have taken a critical step. You have stumbled upon an actual method of profiting in the stock market. Whether you choose to embark on the journey to consistent profitability is entirely up to you. It will take some time but will be completely worthwhile if you are serious about becoming a consistently profitable trader. What’s not to like about learning the skills and the knowledge needed to earn thousands of dollars in the financial markets and ultimately take control of your life and financial freedom? Getting involved in trading or taking your trading more seriously, will be a truly life-changing decision for those that manage to beat the learning curve, and that is exactly the goal of this book.

There are hundreds of products and services available online which claim to turn you into a stock market expert in a short period. The truth is, the chance of overnight success in the stock market is completely a myth, so I suggest you ignore all these touts. They'll make you believe that the penny stock market is the answer to all your problems. They'll tell you that you only need a few hundred dollars to get started and they'll make false promises about the fact that trading is easy and anybody can do it with little effort. Essentially, they'll play with your emotions, and if you fall for their lies, unfortunately you will have nobody to blame but yourself.

Fortunately, if you are serious about learning to trade, and willing to put in a bit of time, you can learn an actual trading system with a statistical edge. The key to winning in trading is to educate yourself properly so that you learn to manage your risk so that you are able to stay involved in the markets for the long term. If you do this, over time your trading account will grow significantly and your profits will become substantial.

This book is a stepping stone that will point you in the right direction. It will give you a solid foundation, answer a number of important questions, shatter several trading myths, and provide a game plan for the road ahead of you...
INTRODUCTION

Why I Choose to Trade Penny Stocks?

The penny stock market is one of the most misunderstood markets in the world. So many people enter this market with little knowledge about the skill set, trading tools, and other tactics that are required to be successful. Everyone seems to have heard of someone who made thousands of dollars in penny stocks, and naturally, they want to do the same.

The fact of the matter is penny stocks can make incredible percentage moves which put the majority of other asset classes to shame, and it doesn't take a ton of money to get started. I can tell you from experience that when you make your first profitable trade, there's no better feeling in the world, but I must warn you that the road to profiting consistently in the penny stock market isn't some get the rich quick scheme. These false beliefs are the primary reason that so many people fail.

The key to consistent profits in penny stocks or any market for that matter is to extract small to medium size profits consistently and compound your profits. The good news is it's absolutely possible to do this once you separate yourself from the large group of get-rich-quick seekers looking for overnight success.

Although trading penny stocks becomes relatively straightforward once you know what you are doing, it's not something you are going to learn instantly. If you think you are going to start trading today with $300 and become a millionaire by next week, you are completely delusional, and you need to think again. Many so-called "guru's" will try to convince you that you can do this, but I can assure you they are lying so that they can sell you a product and make themselves rich at your expense. Everyone wants to jump into trading head first, but the truth is the stock market will eat you alive if you get involved without arming yourself with the proper knowledge before you put real money on the line. With that said, it's most undoubtedly worthwhile to learn to trade, but you MUST be smart about the approach that you take. Since
you picked up this book, you are starting on a positive note, and this should assist you during your learning phase.

**Picture This ...**

Imagine waking up and finding out that today could be one of your monthly paydays. The difference between this paycheck and the one you receive from a full-time job is this one will come as a lump sum. You won't have to get up at 4:00 AM to commute to work or spend 40 hours a week doing monotonous tasks for your ungrateful boss. Instead, you will wake up at a reasonable hour, make sure your trading system is set up correctly and will enter several keystrokes through your online brokerage account. Most of the time you will spend only 30-90 minutes monitoring your trading system, and then you have the choice to call it a day, typically walking away with several thousand dollars or even much more in profits. This is the lifestyle that everyone deserves, and it will become a reality when you understand how the penny stock market actually operates.

My name's Daniel Regan, and I am a professional trader and employ a proprietary trading system that I developed myself. I started trading around January of 2002 and became profitable in March of 2004. For many years I traded strictly by myself without the influence of other people. I can definitely say that learning to trade without a methodology to use as a guide is very difficult, and I don't suggest it for anyone. Unfortunately, if you do it this way, you will lose a lot of money before you become successful and that is to say, you actually do. I lost tens of thousands on the "the market tuition," and it was very painful. I know of people who spent more than 25 years trying to figure out the market, but they never actually did until they went through this book. After you learn a proven system, you will be able to lower the learn curve significantly and become a profitable trader much quicker than I did. None the less, learning to trade is a process, and if you try to rush it or cut corners, I can assure you it won't end well.
CHAPTER 1

The World of Penny Stocks

By definition, **penny stocks** are stocks that trade for less than $5.00 per share, although today, some people will even classify stocks under $15.00 as penny stocks. This may sound strange, but let me explain why this is the case. It’s not so much the price per share which defines whether a stock should be considered a penny stock, but rather the volatility of the stock, which defines how quickly it can move up or down. Penny stocks have a high level of volatility and can make significant moves very quickly, unlike the stocks of established companies which typically move rather slowly. For this reason, there are several types of penny stocks that traders usually focus on. The first are listed penny stocks which trade on what is referred to as the big board exchange, the NASDAQ (National Association of Securities Dealers Automated Quotations), the NYSE (New York Stock Exchange) and the AMEX (American Stock Exchange). These are typically referred to as small or microcap stocks and today many of these penny stocks are very active.
True penny stocks actually trade on the OTC Market (Over the Counter Market), which are also known as the OTCBB and the Pink Sheet Stocks but these two markets were combined, and they are now referred to as OTCBQX. There are actually two classifications of OTC penny stocks. The first is stocks that trade over $.01 per share, and these are just referred to as standard penny stocks. The second is stocks that trade for less than $.01. These are called sub-penny stocks, and contrary to popular belief, sub-penny stocks are NOT good to trade anymore, unless you enjoy losing money. Some of these stocks trade for $.005 a share and others for as little as $.0001! None the less, many people are infatuated with these sub-penny stocks because they allow people to purchase hundreds of thousands or millions of shares. Little do they realize that these types of stocks are incredibly manipulated and have very little trading volume, and the chance of profiting in them consistently is near zero.

The penny stock exchanges list some of the most volatile stocks in the world which funnels millions of dollars from unsuspecting newcomers and puts it into the hands of a specific group of people. The key players are small hedge funds and Private Equity firms that deal with micro-cap stocks, market makers, stock promoters, and professional day traders.

![Market Players Diagram]

Smart retail day traders that figure out the secrets of the penny stock market can take part in this game and learn to extract their fair share of profits. The key is to realize that you must compete with these other market players, which most certainly means trading is NOT a game. If you are looking for a new hobby, I suggest you join a kickball league instead, unless of course, you don’t mind throwing away your hard-earned money. While trading certainly can start this way, you will quickly learn that it requires more time and focus.
What is the Penny Stock Market?

The penny stock market is not what it seems. Penny stocks are the worst publicly traded companies in the financial markets, many of which are not even real companies. I will go as far to say that a majority are just straight-up frauds which have only one employee and whose business address is actually an abandoned warehouse, UPS Store mailbox or even some poor guy's parents basement (yes I have actually witnessed a penny stock like this back in 2011)! Since the regulations in the penny stock market are very low, these companies typically don't have to report too much financial data with the regulatory agencies the U.S. Securities and Exchange Commission (SEC) and Financial Industry Regulatory Authority (FINRA). This entices many corrupt individuals to take part in penny stocks because the ability to take advantage of unsuspecting investors (a.k.a. the general public) is so great.

The scammers in penny stocks operate in a grey area of the financial markets. Although Wall Street as a whole is inherently corrupt, the penny stock market functions in a completely different realm far outside of reality! Hundreds of times per month millions of dollars are funneled into obscure penny stocks which are nothing more than registered shell corporations. They have no earnings, no revenues, and no cash on their balance sheet. They also don't produce any products or provide any services, but try to make unsuspecting people believe that they do! These are some of the world's worst companies, yet their stock prices sometimes rise as much as 1000% in a short period of time. Fortunately, informed traders can use this information to their advantage and profit off these incredible opportunities! When you learn what's going on behind the scenes, you no longer will fear penny stocks but instead, embrace them for the tremendous opportunities that they present.

Don't Fear Pump and Dumps

Although penny stocks are risky and can be very dangerous if you do not know what to look, nevertheless, they are an essential part of a penny stock trader's success. There's really no reason to fear them once you discover what really goes on behind the scenes. You may or may not know about the methods that are being used to bring awareness to stocks. Even if you are aware already, I am certain very few people understand penny stocks enough to profit from these high probability opportunities. Either way, you must become an expert at analyzing the way that these people operate since they are an essential part of the penny stock market. Many of them are very bad at their jobs while others are amazing, so you must become familiar with how they fit into the equation.
Naturally, the thought of buying a pump and dump can be a scary, but it really isn't the case if you understand why these stocks move. In order to profit in the short-term traders need a couple of key components. Firstly, they need liquidity, which means they need a lot of people placing orders to buy or sell a stock. The majority of penny stocks are usually very illiquid, and therefore they don't go anywhere. The first thing you should do when you look at a stock is to calculate the dollar volume. This simply means multiplying the current trading volume by the current price per share. The only time you will want to avoid this calculation is in the first 5 to 15 minutes of the market open because at that point shares may not have had time to change hands and therefore the volume might be very low. A stock should have at least a million or volume minimum, or you should avoid it.

Secondly, a stock needs a catalyst in order to give people a reason actually to buy or sell the stock on any given day. A catalyst can be something like an earnings announcement, a corporate action like a merger or acquisition, a government decision like and FDA approval or a joint venture with a more established company. Any of these catalysts will cause a stock to move up or down. Now whether this information is actually legitimate or completely fictitious is a completely different story, and as a trader in the penny stock market, we don't really care. All we need is for a stock to move, and then we use a trading system to profit off the movement.

Thirdly, we need volatility. This is defined as a significant range between the open, high, and low of a stock. A catalyst can cause volatility, but it isn't always the case. As traders, we don't really care if the catalyst is positive or negative for a stock. If it's positive, maybe we decide to buy a stock and jump in and out as it moves higher. If it's negative, maybe we wait for the price to fall and then buy it for a bounce, profiting off the short sellers that decide to take profits on the way down. There are many strategies that we can use to profit if a stock has volatility.

The figure below is a daily stock chart of one of the world's greatest pump and dumps. This promotion brought millions of volume into a penny stock called CPMCF. The stock made an amazing 500% move from $.05 to $.25 in 7 days, and then something miraculous occurred. One of the primary market makers, called Seaboard Securities Inc. (market maker ID: SEAB) got caught on the wrong side of the market. They were short a large amount of CPMCF stock thinking the promotion was over since the stock had already spiked 500% and then the stock just kept going. They scrambled to cover their short position, but then buyers caught on and pushed the stock higher. In just two days, the stock moved from $.20 to $.80. It was an incredible time for traders since the liquidity in the stock became enormously high. I made a number of trades in this stock during this time on both the long and short side of the market, and it was a very profitable time in the penny stock world. My strategy helps me identify opportunities like this, and my trading system helps me time when it is right to buy or sell.

Thousands of suckers also got trapped buying this stock as it was pumped up. Many of these people lost everything, but it really didn't have to be this way. If they armed themselves with the proper knowledge, it would have helped them understand what the penny stock market really is. Unfortunately, most people are too lazy, or foolish to do this and instead just
choose to gamble like they are in Las Vegas. This is why the penny stock market is believed by many to be rigged when in reality; it’s only rigged for the uninformed.

![CPMCF Graph](image)

**Why Do Most People Lose?**

Most people that get involved in the penny stock market lose everything because they don't understand what they are getting themselves involved in. They have no idea how much of an advantage the key players have over everyone else. If they did some research and stopped to think about what the penny stock market really is, they would realize it is a rigged game for the majority of participants. The average uninformed person, with a crappy retail broker and a few hundred dollars in their brokerage account, will NEVER consistently earn a profit in the penny stock market. 99% of the time these people will lose everything very quickly and the longer they hold onto these worthless investments, the higher the chance that the value of these penny stocks will decline to zero. The penny stock market thrives on these people because stealing a few hundred or several thousand dollars from thousands of people, adds up to significant profits for the key market players over time.

You may run across a person online or in-person that thinks they've found a hidden gem. They may agree with you that many penny stocks are fraudulent, but they will try to convince you that the one penny stock that they own is the real deal. These people are straight up suckers,
and the reality is these are the type of people whom you must learn to take advantage of if you want to make money in the penny stock market...

The average uninformed, but a rich investor with a several hundred thousand dollars or more in their brokerage account, will also lose it all. Intelligence in the stock market doesn't work the same way as intelligence in the real world. It doesn't matter how book smart a person is or how good a person is at their profession, because the penny stock market is set up in a way to steal every last cent from outsiders that don't know how the game is played. The worst thing that most people do is they underestimate the penny stock market. Although stealing people's money is the true purpose behind Wall Street as a whole, it's possible to make money by investing in established blue chip companies in the long term over 15+ years. On the other hand, without pure luck, it's near impossible to make money in the long term by investing in penny stocks for the reasons mentioned above. With that said, traders have the ability to make money when they are aware of the challenges that they will inevitably face and set themselves up in a way which is favorable to profit off the people who are known as the "dumb money."

A few people may get extremely lucky from time to time, but this only accounts for about .001% of the individuals that are involved in this market. The rest of the people will lose everything I can guarantee! Yes, once in a great while a penny stock will shoot up from $.10 to $50.00, but the chance of this is infinitely low. In the last 17 years, I have only seen a few penny stocks that did this, but none held on to their gains for more than a few weeks. Today these same stocks trade for pennies or are bankrupt. So even if a person gets incredibly lucky, they will have no idea when to sell their penny stock and will most likely end up losing all the profits and then some due to a lack of trading knowledge and pure greed.

One stock VRML (which later became VRMLQ because it went bankrupt), was related to the pharmaceutical industry and had their so-called cancer drug approved by the FDA for orphan drug status. The second penny stock MXC was an oil stock with a mega-low-float (which means the number of shares available to trade was extremely low), which spiked due to the news about the second war in Iraq. In both cases, neither of these stocks amounted to anything, so if you didn't have a strategy to get in early and pinpoint your exits, you would have lost all your profits if you invested in them, rather than traded them.

Out of approximately 8,000 publicly traded companies, these are some of the only ones I have ever seen that made incredible moves, yet so many people buy penny stocks every day with these ridiculous expectations. You have to realize that if a penny stock company actually had a legitimate product or a biotech company that was going to earn billions in profits, a financial
firm such as a hedge fund or a large competing Pharmaceutical company, would buy them out immediately. This is the way that legitimate companies operate. This almost NEVER occurs with penny stocks!
Imagine This…

You just jumped into a pool full of great white sharks. You just cut your leg, and the blood is gushing out into the water. There is an infinitely small chance that you will survive even a few seconds before the sharks eat you alive. Most likely, you will die instantly. No exaggeration, this is an excellent comparison of an uninformed novice that decides to get involved in the penny stock market without first thoroughly educating themselves about the challenges they will face and how to overcome them. The learning curve is extremely high and the competition is waiting to eat you for breakfast, lunch, and dinner.

Many outsiders think that they are entering a fair game, but they are sadly mistaken. They think they can just identify a company with what seems like a great product and a bright future and invest their hard-earned money for the long term as they can in large established companies stocks like Walmart or McDonald's. They also think doing their research on message boards and other online websites and listening to random strangers, will put them ahead of other investors and allow them to make millions from a $300 investment. Little do these people realize that the chance of this is so small that they probably have a better chance of being struck by lightning. The reality is most of the information about these penny stock companies are exaggerated or even completely made up. To begin to make money in penny stocks, you must separate yourself from this group of uninformed people and start to have reasonable expectations!
Who Actually Makes Money?

Despite what I just mentioned, "informed day traders" know that there are ways to beat the system that has been put in place to take advantage of the general public. They know if you are quick and knowledgeable about specific high probability trading situations that arise, you can extract large sums of money out of the penny stock market in a short period of time. If you have a larger amount of trading capital to start with, you can even make a lot more money (hundreds of thousands or a few million dollars a year). You don't have to do your due diligence regarding the fundamentals of penny stock companies, because nearly are all worthless with no earnings and little chance to ever turn a profit. Doing so is actually a waste of time and very dangerous if you start to believe their lies.

Don't get me wrong; I am not telling you that you don’t have to spend time learning about exactly how penny stocks trade. Doing so would be foolish, and you will end up a loser like most people. Rather I am suggesting spending your time more wisely by educating yourself before you ever put any real money on the line. A general rule of thumb that all traders should live by is that stocks are merely stock ticker symbols and nothing more. It's imperative that you learn to trade the ticker and ignore everything else when it comes to penny stocks.

There is no denying the fact that penny stocks can be risky, but to be successful, you have to be disciplined enough to wait for the right time when your risk of owning a penny stock is greatly reduced. Most people don't have the patience and discipline to wait for these perfect situations, and that is why they lose money again and again. At these times, it is possible to jump into the market with large positions and be quickly rewarded for taking on the risk of holding penny stocks. I want to emphasize larger positions because trading commissions (the price the broker charges for executing your buy or sell orders), slippage (the difference between where you expected to enter a trade, and the actual price your order was executed at) and large spreads (the difference between the actually price you can buy a stock at and the price you can sell a stock at) almost always result in losing trades when a person’s position size is too small. Lots of people try to trade penny stocks successfully with a few hundred dollars, and this makes no sense... While you certainly can try to do this, it's completely counter-productive, and you are most likely going to end up a loser in the long run. The only exception to this rule is when you first go live after practicing on a simulator doing paper trading first. In this situation, it is advantageous to start with a small amount of money in order to get a feel for the psychological aspects of trading without risking too much.
If you avoid the rules that are set in place and instead trade-off hunches, message board postings, or stock tips from your golf buddy that told you XYZ penny stock is a "sure thing", or invest in penny stocks based on your fundamental analysis for months or years, you are almost guaranteed to fail. Remember, basically everyone knows nothing about how the market functions, so you are almost certainly getting poor advice if you take tips from the majority of people. Always remember penny stocks can move a great amount in a short period of time and are incredibly risky for the uninformed people that have no plan and no profitable trading system in place.

**Profit Potential**

As I said before if I told you it was possible to start out with just a few hundred dollars and make millions in penny stocks in the next week or month, I would be straight-up lying. It's not possible for the average person to earn that kind of money in the penny stock market because the trading volume is too low. Yes, there have been a few unique individuals that were able to turn about $10,000 into a couple million, but all these people did this during the DOT COM bubble in the year 2000 to 2001 when literally all stocks went up every single day. On top of this $10,000 is significantly more than a few hundred that most people think they can start out with. During this time, thousands of people quit their full-time jobs to become traders. Anybody that day traded (which is when you open and close out your trade during the same trading day 9:30 AM EST to 4:00 PM EST) made a lot of money, but most lost everything because they swing traded (holding trades overnight typically for two days to a few weeks) or position traded (holding trades for one month to one year) and really had no clue about what they were doing. The few people that kept their profits were incredibly lucky that they happened to be in the right place at the right time. I guarantee nearly every one of these people with a success story like this does not earn nearly as much now utilizing their same strategies (if anything) since stocks no longer rise every day as they did during the bubble. They may earn millions of dollars now selling their success stories of how they turned a several thousand into a few million, but they are now marketers and not traders, and the chance of anyone repeating this is nearly impossible today.

You have to be much more selective now than during that unique time in history. On top of this, realistically speaking, to make millions in a short period of time, you have to start off with at least a hundred thousand dollars. Fortunately what I will say is that I consistently was able to profit $5000+ a month on average in my early years, and my profits continued to increase a lot as the value of my account size grew larger. This is a realistic goal that most people should be able to achieve fairly quickly if they have a decent amount of money in their brokerage account.
To give you an idea of the **profit potential** for people with smaller accounts, here are a few of my smaller trades. Notice the position sizes on these particular trades are very small relative to the dollar gains, which mean that even people with small accounts can earn good-sized returns in penny stocks! Also, notice these profits were earned in a very short period of a few hours to a few days at most.

Today I take much larger positions sometimes as much as $100,000-$250,000 with the potential for much bigger profits, but you really must be realistic. Something important to realize about profit potential is that each person's outcome in trading is completely unique, and you should never try to compare yourself to somebody else. If you see a person on Twitter that posts a $25,000 profit (assuming it is actually real), this is most likely because this person took, for example, a $100,000 position and got a 25% return. If you are only trading with for example $2,500, this will result in a $500 profit for you. Obviously, $500 is still a great profit to earn in minutes or hours, but you need to have reasonable expectations about profits based on how much money you have available and also how much you are willing to risk on each trade. I utilize a trading system that works for not only penny stocks but also higher-priced stocks as well as other asset classes like cryptocurrencies. Over time your account will grow exponentially, and you'll certainly have a chance to make huge profits, but this isn't going to happen immediately unless you take huge risks from the start or get very lucky.
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CHAPTER 2

Modern Technical Analysis

Technical analysis is a tool which is used to assess the price of stock by analyzing stock charts based on price and volume data. People that rely on technical analysis attempt to predict the future short-term direction of a stock by focusing on historical prices and other variables such as market sentiment and human psychology, which are a considerable part of stock price movement. By analyzing the way that the average person thinks, it's actually possible to place trades which capitalize on the emotional buying and selling decisions that the majority of market participants make. Technical analysis is more of an art than a science, but smart traders can use it in a way which helps to stack the odds of success on any given trade, slightly in their favor. By tipping the scale even just a small percentage, profits will add up significantly over time.

The reason this chapter is called modern technical analysis is because a lot of the tools and tactics that have been taught over the past 20-30 years are no longer effective. The basic indicators or concepts may still be put to use, but they don't function the same anymore. Trying to utilize these tools without reverse-engineering the real purpose is pointless at best and down-right dangerous at worst. The main benefit of technical analysis is that it helps traders to identify where to buy, sell, take profits, and limit losses. Have a road map which lays this out for you is paramount to becoming a profitable trader.

One of the main assumptions of technical analysis is that all currently known information is reflected in the price of a stock. Although it's not a penny stock, a good example of this is if you take a company like Tesla (TSLA). The stock is trading for a few hundred dollars per share, but it doesn't make any money, and people have no idea when or if the company will start to earn a profit. Regardless of this, the current price of the stock is what people are currently willing to pay at a specific point in time, even if it seems ridiculous or irrational. Penny stocks are very similar to this because at certain times specific information can inflate the price of a stock way beyond a rational level and traders armed with the proper knowledge and skillset, can profit from these opportunities.
From my experience, it doesn't make sense to focus on **fundamental analysis** such as P/E ratios, profit margins, or any other fundamental metrics, because frankly, these are useless for short term traders. If you plan to hold a stock through an earnings release (which is very risky) or to invest for the long term, then fundamental analysis certainly has its place, but outside of that, it's pretty much useless for penny stocks. The reason for this is that earnings are reported on a quarterly basis and therefore, do not usually affect the price of a stock in the short term. Fundamentals are even more useless for penny stocks since very few have any real intrinsic value since they are unprofitable and are in an exploratory stage with no operations. In my own trading, most of the technical indicators I use are nothing out of the ordinary, but the custom settings are proprietary, and very few people know about them. Profiting in penny stocks requires differentiating yourself from the majority of other market participants, which is what is known as **the herd**. This is why following most people's advice is a bad idea since most people are just following somebody else.

**Why I Like Short Term Trading**

I prefer day trading but also hold stocks overnight occasionally if the risk of a given trade allows for it. I like day trading because it allows me to sleep better at night, knowing my money is not at risk to adverse market movements, and short-term trading suits my personality. Not to mention, penny stocks are quite volatile and the longer you hold them, the greater the chance that they will drop sharply. Every new trader must determine a trading style which suits them and fits their lifestyle and personality. There is no one size fits all trading approach that everyone can use.

Unfortunately, the luxury of having no overnight risk exposure comes at a higher price because timing your entries and exits during the trading day becomes more important than when you hold a stock for several days or a month. The reason for this is that **market makers** (people employed by the big financial institutions like Goldman SAC's or High-Frequency trading firms like Citadel), don't want you to make money. These people employ computer-generated trading systems which buy on the **bid** and sell on the **ask** (unlike everyone else who typically must buy on the ask and sell on the bid), effectively capturing the bid-ask spread. If it becomes easy or predictable to earn a profit in the stock market, the job of these professional traders becomes more difficult, and their companies lose money.

Don't forget that there is a **long** (a person who buys) and a **short** (a person who sells) on every trade, and one will ALWAYS win or lose. The market mechanism does not work otherwise because money cannot be pulled out of thin air! Surprisingly some people are not aware of this
simple fact. Obviously, market makers don't want to lose money, and since this is their profession, they make sure that the chances of you beating them on any given trade are very small.

To profit in penny stocks, you have to be smarter than 99% of the other market participants, or you will inevitably end up a loser. This is why it makes sense to only trade at optimal times when stocks exhibit specific price patterns. Despite a five and a half hour trading day (regular hours for U.S. stocks are 9:30 A.M. to 4:00 P.M. Eastern Time standard) the window for profitable trading is much less. Everyone that is new to the market thinks you either have to be invested in the market at all times, or you have to buy and hold for months or years. When it comes to penny stocks, this is completely wrong, and this belief will result in consistent losses.

From my experience, to be profitable in trading, a trading strategy must suit a person's personality; otherwise, they are bound to fail. The reason for this is because you have to be comfortable following a trading strategy at all times, or you may end up missing trades or entering or exiting at the incorrect times. If this occurs, you won't make money in the long term since you may end up missing a huge trade or taking a loss that you should have easily avoided. Successful traders don't try to hit home runs on purpose, but every once in a while they are in the right place at the right time and hit it out of the park. The general public tries to take small positions and therefore is forced to hold on longer expecting a home run every single time, and for this reason, they are almost always unsuccessful because even though they may be right once in a while, their profits will almost always slip away when stocks reverse. Instead, large profits help to offset small losses that are bound to occur from time to time, and this is indeed what leads to profitable trading.

**Why is Classical Technical Analysis Dead?**

There are literally thousands of technical indicators available for free and for sale. Everyone online seems to claim to be successful using typical indicators like MACD, Stochastics, Money Flow, ADX, OBV, Williams percent R, Accumulation Distribution, and many more indicators with default settings. Tons of people on social networks like Twitter and Facebook show their annotated breakout charts or trend line breaks and claim to be making a killing using standard discretionary trading methods.

The fact of the matter is classic technical indicators no longer work like they used to and at least 95 percent of these people are straight-up lying. For instance, 99 percent of books written on trading will tell you to follow the 50 and 200-day simple moving averages and to buy when the MACD crosses the zero line, or to buy when the stochastic indicator is oversold below 20 and
sell when it's overbought above 80, etc. While stocks do gravitate to these price levels, there's so much "market noise" around them that you can no longer use them for generating profitable trading signals without customizing these indicators. You will get chopped up to death and lose all your money if you try to trade based on this outdated methodology that you can find all over the internet, YouTube and in hundreds of trading books on places like Amazon, eBay, and other websites.

Another example is buying classic breakout patterns, which now fail multiple times before a real breakout takes place. You certainly can watch standard moving averages for significant support and resistance, but this alone is not a profitable strategy and will not make you money consistently. If you think common moving cross-over systems are going to make you rich today, you are greatly misinformed...

**Support and Resistance**

A fundamental concept in trading is called support and resistance. This is one of the only "classical" types of technical analysis which still works today; however; it's not as "cut and dry" like it used to be. I'll explain more about this in a bit, but first, I want actually to go over what this concept actually is.

**Support** is a level where buyers are willing to enter a stock and prevent the price from dropping any further, essentially "supporting" the stock. The reason that traders will support a stock is that as a price drops below a person's entry price, they may decide to buy more. If many people bought at a specific price and they all are now negative on their trade, a majority may decide to double or triple up on their position in order to defend the stock and lower their average price. This support level essentially acts as a floor in the stock. **Resistance** is the price where people are looking to sell a stock, and nobody is willing to come in and buy from them, essentially halting a stock from moving higher. If a number of buyers enter a stock at a specific price and then the stock were to fall significantly right after, the majority would be inclined to sell the stock for breakeven once it gets back to their entry price. This results in an imaginary ceiling, which is what traders refer to as resistance.

Support and resistance play a significant role in shaping "the market's framework" because so many people are focused on these "price levels" that they actually become significant, and this **self-fulfilling prophecy** is the major premise behind technical analysis as a whole. Although these terms are quite psychological in nature, there is no question that they are essential in trading and will most likely always be.
Unfortunately, there is a lot of "noise" in the market today, so support and resistance cannot be thought of as specific prices anymore, but rather a zone or a range. If for example, you expect a stock to be supported at $1.50 per share, there is a chance it may drop through the support level to $1.40 (to trigger people's stop-loss orders), before Rallying back above support at $1.50. Generally, a candlestick or a bar must close above or below a support/resistance for that price level to be invalidated. If you aren't careful to place your stop loss at the proper level, you will be stopped out of your trade for a loss nearly every time today due to the noise.

The more times the price bounces off one of these support or resistance levels, and the longer the period of time between each penetration, the stronger these levels are thought to be. What this means is that a support or resistance level on the 5-minute chart will be much weaker than one on the daily or weekly chart. For this reason, we can use this information to our advantage by increasing or decreasing our position size based on the strength of the level.

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**Support and Resistance**

![Support and Resistance Chart](image)

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**Analyzing Trends**

Most profits in the stock market are derived from identifying a trend and jumping on board for the ride before it's over. Because of how they form, you never know when the bottom or top of a trend has occurred, until after they occur. Fortunately, as a trend trader, you aren't trying to pick the top or the bottom, but instead, catch the middle two-thirds of the move up or down.
The reason you do this is that it allows you to wait for confirmation that you are on the right side of the trade, which effectively limits your downside risk.

An uptrend is characterized by a period of higher highs, and higher lower in an asset. All uptrends require a breakout above a support level before a new uptrend can form. Trading a breakout is one of the main strategies of most new traders, which is why it's a lot more difficult to buy classic breakouts today. A lot of breakouts end up as breakout failures. See the figure below for the analysis of a classic uptrend. Notice how the stock consolidates in a sideways price channel before triggering stop-loss orders in order to suck in short-sellers and then quickly reversing direction causing a short squeeze which takes the stock back above the prior resistance point at the breakout level. When a resistance level is broken, it almost always is retested. This retest determines whether the prior resistance will be supported as buyers jump into the stock and try to push it to a new high. This first move up after the retest is usually a good time to start selling part of your position to lock in some profits and then move your stop-loss order to break even just under the breakout point. As the next small channel forms, this is called re-accumulation. This is where people that missed the first breakout may attempt to jump in and hopefully catch a portion of the move higher to the second target. A correction or what is commonly known as a pullback will typically occur and if a lower high forms the trend may resume. Whereas breakout traders are just trying to catch the burst of momentum buying that occurs as a large number of people all jump into a stock at the same time, trend traders are more interested in looking for the higher lows during each pullback and trying to stay in the trade for as long as possible.
A downtrend is a period of lower highs and lower lows. You can either trade with the trend or against it (countertrend). All downtrends require a breakdown below a support level before a new downtrend can form. Breakdowns are not very easy to trade anymore because so many new traders are attempting to short sell them. You used to be able to short sell into a new low and catch a nice fast breakdown, but today many breakdowns through support to new lows are quickly followed up with a quick retest of the prior support which hopefully will now act as a resistance level. For this reason, it makes more sense to short sell into this retest anticipating the breakdown to continue lower as the stock falls back towards the first target. Whereas an uptrend has re-accumulation after the breakdown, in a downtrend, there is a period of what is called re-distribution. This results in a consolidation or a sideways channel as short-sellers get ready to attack the stock a second time. If the shorts are successful, then the stock starts to fall again, and its next area of interest is the second target. After this, another bounce most likely will occur, but if a lower higher ensues, then the downtrend may continue, and the short-sellers may be safe to hold. The longer the price of a stock drops, the greater the chance that a trend reversal occurs and the greater the risk that short sellers will be squeezed.
CHAPTER 3

My Trading Methodology

Since I am a technical trader, I analyze stock charts looking for familiar and unique trading patterns. These patterns allow me to place trades based on a group of technical indicators, which I combine into a proprietary trading system. Using the system, I devised various strategies which allow me to find specific catalysts which cause stocks to make significant percentage moves. The technical trading system is for timing my entry and exits, and the strategies are there for forecasting the direction of a stock. These components are detailed in my trading plan, which allows me to extract consistent profits. I find it works a majority of the time so that I can earn a profit when by utilizing strict money management.

Money management and in particular position sizing is the key to successful trading. The reality is a profitable trading system is useless if you don't know how to manage your risk. I would argue that 85% of being successful in trading comes down to using proper money management, and the other 15% comes down to having a system that identifies when to buy and sell. This is the opposite of what most people think, which is why everyone is looking for the Holy Grail trading system, which never posts a losing trade. 'Let's face it nobody likes to lose, but when you realize that taking small, manageable losses is actually required in order to reach consistency in the market, then it makes a lot more sense.

For example, if you have 99 trades in a row that are profitable, but end up risking too much by taking too big of a position and not cutting your losses on the 100th trade, you could easily lose your cumulative profits from the other 99 trades. This is the way the market functions and a big reason why most people fail. Most people take profits way too early and hold losers for way too long, effectively destroying any chance to earn consistent profits. Therefore, it's best to pay more attention to your max loss on a trade, more so than your max profit. Unfortunately, most new traders do the exact opposite and see other traders making big money and only consider the upside potential. If you have never considered this in your trading, and have been experiencing consistent loses, this is most definitely the reason.
The system I use was designed through tens of thousands of hours of research and trial and error. This is not an exaggeration! I spent years sitting behind the computer screen identifying patterns and figuring out which algorithms the market makers use to "game the markets." My buy and sell decisions are based on a set of rules or systematic approach, which prevents me from making emotional decisions that full discretionary traders face. Discretionary trading means buying without a real reason or distinct plan, which is also known as trading based on your "gut." Most people are either discretionary investors with absolutely no clue what they are doing, or are discretionary traders who may have knowledge of fundamental or technical analysis and other factors that affect stock price movements, but don't have a defined trading plan. Neither of these groups of people makes any money consistently in the market because they have no way of repeating their successful trades consistently. Although they may get lucky once in a while, they will end up giving it all back to the market over the long term. If you trade off hunches or stock tips that you got from some clown on CNBC like Jim Cramer or the fast money jokers, you are making discretionary decisions. Although some people learn to trade this way, it takes many years, some serious luck and thousands of dollars in losses before they figure it out. In my experience, this is a poor use of time, and it's not worth going down this path.

In general, three out of four stocks follow the overall market, and for this reason, when the market rises, there's almost always going to be people with paper profits. The problem with this type of profits is that they aren't "real" until the trade is closed out and the profit is "locked-in" or realized. Investors and traders with no plan will never lock in profits, which is why they will never consistently earn profits and will ultimately end up losing money the longer they are involved in trading.

I find very few people can trade successfully using fully discretionary systems. The reason for this is because 99 percent of people do not have the discipline needed to cut their losses short and let their profitable trades reach their targets. Most people think they have this, yet if that were the case, there would be a lot of more-rich traders rather than people working 9-5 jobs! There are far too many people that average down on losers or enter stocks when the probability of success is very poor. Averaging down is buying more of a stock at a lower price than your initial purchase in order to lower your average purchase price. While averaging down may work out for some people part of the time, the problem is when a stock does not reverse, and you end up losing every last cent that you invested. This is even more important when trading on margin using borrowed money. This is how people get stuck in a stock and have to hope it comes back to their entry so they can get out of the stock for break even. The reality is it rarely will come back or may take a long time and in the process; lock up your money,
preventing you from taking other trades. This is how new traders typically end up as long-term investors and ultimately, never have a chance to progress to the next level as a trader.

**What is a Technical Trading System?**

The technical trading system I use is called the Buy/Sell Zones. A stock ticker symbol can be entered into the system, and in a few seconds, it becomes crystal clear whether a stock is a buy, sell, or a short. This does not mean the system is right every time. It is rare to find a profitable trading system that will be right more than about 70 percent of the time. Fortunately, my system is right more than it is wrong, which is more than enough to lower your risk and earn consistent profits. The system is also used to calculate profit targets and stop-loss order as well. The system allows me to look at the entire range of potential average price movement for not only penny stocks, but also big board stocks (NYSE, NASDAQ, and AMEX), bonds, options, futures or forex or even cryptocurrencies, and determine if now is the optimal time to place a trade.

My system keeps me out of trouble by preventing me from taking trades where the probability of success is not in my favor and allows me to limit my losses. I only place trades which are based on my trading signals. I will not trade off random news or tips from others, although I will input any ticker that could be of interest into the trading system and see if it is worthwhile to put on my watch list in hopes that it presents a profitable opportunity in the future.

**Unique Chart Patterns**

Traders need a way to forecast or predict the direction of a stock in the short, medium, or long term. Thankfully chart patterns form in the market which helps with exactly this sort of issue. The only problem is there are thousands of patterns to choose. Just like anything else with regards to technical analysis, the most obvious patterns no longer work like they used to because they have already been exploited. Head and shoulders, double bottom, double bottom, standard breakout, cup, and handle are just a few of the most well-known patterns that are not so easy to profit off anymore. This won't stop the guru's from talking about these patterns on a daily basis. Fortunately, variations of older patterns along with completely new patterns are ever-present in the market, and I am always on the hunt for new patterns.

The reason why trading patterns work so well is that they form due to the buying and selling decisions of human beings or the computer algorithms that have been programmed to place trading decisions. These patterns are repetitive and continue to repeat again and again, which is why they have a certain predictive power to them. If you can identify these sorts of patterns, then all you have to do is sit back and wait for a specific signal to present itself, and at that
point, you just execute your trading plan in order to profit from the expected price movement. If you combined patterns with statistics, it could be even more powerful because then you know the probabilities and can vary your position sizes based on this information. Although price movement based on patterns is never a guarantee, it really doesn’t matter as long as are stop loss is in place to limit the risk.

Below are a few chart patterns that I have used to earn a fortune:

![Bounce Reversal Pattern](image)

The basics premise of this trading setup is that a stock is in a significant downtrend. The reason for the downtrend really doesn’t matter so much as long as it is not due to something like a stock offering (where a company sells new shares at a discount to the current price), really poor earnings or some sort of news related to fraudulent activities. Other than that, stocks that drop significantly will eventually exhibit this pattern or something very similar, and if you are waiting for these opportunities, you can earn a significant profit very quickly by following this simple trading setup. This is just one variation of this pattern.

What you have to remember is we aren’t trying to pick the bottom. Most people that blow their accounts do so by trying to pick the bottom. They expect a reversal in the stock and then when it doesn’t reverse as expected they don’t stop out of the trade and instead choose to buy more to average down. This is a recipe for disaster, so please don’t let this happen to you now that you know what to look out for.

The real key to success with this pattern is to find the area where the majority of stop-loss orders get triggered under the support line and then wait for a pullback and enter when the prior swing high is broken to the upside where it says buy here. From there we use prior resistance areas to lock in a partial profit and at the same time trail our stop loss higher. We aren’t looking for a home run, but instead
consistent base hits. These patterns repeat again and again, so just focusing on a single trading setup like this can be very profitable over time.

This is a pattern I call the boomerang. It starts with a stock in a strong uptrend. The stock pulls back with an ABC type correction, but finds support and makes a new high, breaking out above the previous high. Eventually, the price action speeds up, and the stock gets ahead of itself. This is at point 1, and it defines the first top.

The stock pulls back but holds the 50-65% range and then moves back to the high. Now the naive breakout buyers jump into the stock, but these are retail traders, and they don’t have the buying power to allow the stock to break out at point 2. This results in a failed breakout which is very common today and the stock quickly pulls back, taking out stop loss, and this time it falls below the prior support level defined during the previous pullback. Up until this point, this is basically a double top pattern, but here is where it gets interesting.

We now have a defined range, and that is all we need to set ourselves up to profit off of the next move higher. If the stock double bottoms or even better hold a higher low on the next pullback, the first trade we are looking for is to buy the stock and ride it back up to the previous high. We will look to sell into the breakout above the previous high as the more experience breakout players enter the stock and most likely cause it to break out to a new high. Since clean breaks rarely happen, we will be ready to enter the stock on the short side and ride it back down to the prior support level. The target on this trade will either be to buy to cover as the stock breaks below the previous support or cover as the stock puts in one more mid-level double bottom pattern on a 1-minute chart which signals a new high is likely.
The OTCBB Up-List Strategy

Out of the 8000 OTCBB stocks, sadly there are only a handful of companies that actually make it off the OTCBB and up-list to a real exchange such as the Nasdaq CM, NYSE or AMEX. Many of these companies never really go any place in the long term, but in the short term, that's a whole different story. The problem is most companies in the OTC market quickly realize that it's a lot easier to sell stock to the unsuspecting public in order to stay in business, then go through the expensive and time-consuming process of getting listed to the big boards.

News is what moves stocks, and by monitoring press releases using the real-time new scanning software, it is possible to filter out these profitable trading opportunities. I have some preferred software that I like to use, but any real-time news websites or program that allows OTCBB stock keyword scanning should work fine. All you have to do is scan the news around 8:00 AM EST and find any stocks which will be moving to a different exchange the following day or in the coming days.

You won't see that many of these opportunities, maybe only a couple a month, but you can literally extract $5,000 from each and every one of these stocks. That's $60,000 a year, and all it takes is a few minutes of your time, and it's just one of numerous strategies. The volume should start flowing into these stocks as all the uninformed people think they've found the next AAPL stock and decide to invest in the stock for the long term. This can cause a big spike in a stock, which is a significant catalyst for traders to profit from. If you get the news around 8:00 AM Eastern time in the premarket and you are using the proper broker, you can buy into the stock before the general public. This is because big board stocks trade in the premarket hours, unlike OTC stocks which don't allow for premarket trading. Once you are in you just place your stop loss and monitor the stock going into the opening bell. The goal is to sell into the herd of suckers as the market opens around 9:30 in the first 15 minutes of the trading day.

To Be Successful Don't Follow Other's

In the stock market, you should never try to do what everyone else is doing and expect to make money. The market just doesn't work this way. You must be a contrarian, and by that, I don't just mean a short seller, because I only short about 25 percent of the time. The other 75% of the time I am a buyer. What I am referring to is that you must be making trading decisions which conflict with the general public's consensus, so that you are entering and exiting at different times from the majority of other losers.

"The herd" is defined as the majority of the people on one side of the market (long or short a stock). Since 95 percent of people are wrong at timing the market, it is logical to conclude that the herd is almost always wrong. The herd are the people that buy a basic technical analysis
book online for $2.99 and think they are going to become a millionaire from using a moving average crossover strategy, because some person in the 1970's was able to use it successfully, and now that same person no longer can make money in the market, so now they are selling their obsolete strategy to unsuspecting people. This could be a person selling a useless candlestick charting course like Steve Nison or a guy like John Bollinger offering you a $2,000-course teaching basic principles that you can learn free on Wikipedia, which don't work anymore anyway. Just because these people make appearances on CNBC does not mean they have any clue about what they are doing, or their methods will work for you. In fact, there are many people that go on CNBC that are paid actors, which have no clue about the financial markets. Seriously I personally know several of them!

Thousands of trading gurus online try to con people into buying their "holy grail" trading systems that use these basic strategies. They claim that these systems never lose or win 95 percent of the time. They show historical backtests which seem to provide evidence that these strategies are a full proof means of printing money in the stock market. They also claim that simple strategies are better. This is a straight-up lie because there is no such thing. Thirty years ago you could make a lot of money buying when the stochastic oscillator gave an oversold reading below 20 and selling when it got to an overbought reading of 80. Today using this indicator like this is useless and will cause you to lose.

None the less stock, gurus are making millions by convincing people that their system is all that is holding these people back from quitting their full-time job, purchasing a Ferrari, and trading from a laptop on the beach in Tahiti. While it certainly is possible to make large sums of money, you won't be making $100,000 a month until you have enough capital to withstand large drawdowns. Since trading is all about risk management, you have to understand that everything is based on risk and reward. The risk to reward ratio must be calculated for every single trade. Since you can't make money without accepting some risk, you must know the potential reward per unit of risk. The reward on a trade must generally be at least 1.5 to 2 times larger than the expected risk, or else your win rate must be greater than 50 percent, meaning you win on more than one out of two trades on average.

High-frequency trading and electronic market making have put an end to the days of easy money in the market. If you don't have hundreds of thousands of dollars and a strong understanding of market technical, it's difficult to trade high priced stocks like AAPL or GOOG and compete with hedge funds and institutional traders with millions or billions of dollars in the short term. To make money today, you have to utilize a trading system that is unique and has a "statistical edge." This type of information is not readily available. I devised my own trading system after spending thousands of dollars on worthless trading systems that I purchased from
gurus and useless trading alert services. If you want to learn to be consistently profitable, take my advice and take matters into your own hands and become a self-sufficient trader. Do not pay people for trade alerts. I guarantee this will not work out for you, and I will also guarantee you will make that guru rich at your expense. Trading successfully requires that you become self-reliant no matter what so please get this through your head right now or stop reading this book.
CHAPTER 4

What is Short Selling?

Short selling is when you borrow shares of a stock from your broker and sell them to somebody else even though you don't actually own them. You are then expecting that the price of the stock will decrease so that you can repurchase the shares at a lower price than the original owner paid, and then return those shares to the original owner in order to pocket the difference between the price they paid and the price you bought them for.

Unfortunately, there is a very high margin requirement when you want to short sell stocks under $1.00. This amount is $2.50 in the margin for each share that you want to short sell. This means if you want to short 10,000 shares of a $.50 stock, you would need $25,000 in your brokerage account rather than just $5,000. You also cannot short sell with less than $2,500 in your account in the U.S. due to margin restrictions. What this means is it is generally better to focus on small-cap stocks priced above $1.00 when short selling.

On top of this, there is extreme competition for a minimal amount of borrowable shares. The simple fact is that low priced stocks are not easy to borrow. Most retail brokers like Ameritrade will even go as far as telling their customers that it is illegal to short sell stocks under $5.00, and therefore they don't allow it. Although it's not illegal in the U.S., it is challenging to locate brokers that will allow you to do this. Fortunately, there are several of them that will, but the absolute minimum amount that you will need to open an account with is $30,000! If you don't have at least $30,000 of trading capital, you should not bother trying to short sell low priced penny stocks in my opinion because you will miss out on many opportunities.

Brokers also charge a locate fee to borrow the shares, and this could be as much as $.10 per share. So for example, if you wanted to short sell 10000 shares, you would have to pay a $100 locate fee plus the broker's commissions. If you took just one trade per day, your locate fees could add up to $2,250 a month. If you are a consistently profitable trader this may not be an issue, but it takes time to become consistent and short selling isn't easy, so it's not a good way for new traders with limited resources, to start out.
Another problem with short selling is that when you short sell you trade on margin, which means you have to borrow money from your broker. When you borrow money, your broker makes you deposit equity, which is usually equal to 50 percent of the total dollar amount that you want to borrow. This is called your initial margin. Penny stocks are highly manipulated. When they start spiking, they can move up a great deal in price, in a very short period of time, sometimes as much as 1000 percent. Before their inevitable dump, they will fake people out numerous times, and can sometimes move several hundred percent past the price at which you thought they "should reverse." This is given the name a short squeeze. Short sellers can get squeezed very hard at times because lots of shorts will all try to buy to cover (which is buying back the shares that they previously sold to someone else and returning them to the original owner).

When you are short, and the stock goes in the wrong direction, the equity in your account will drop. If it drops below 30 percent of the initial amount you deposited (which is referred to as the maintenance margin level), your broker will issue a margin call which means you must deposit more money into your account to bring your equity back up to 50 percent. If you do not do this in a short period of time, the broker will close out your trade automatically. This essentially means they will force you to buy back the shares that you borrowed and return them to the initial owner. If the price has risen by a large amount, you could easily lose thousands of dollars due to a margin call. When you trade with a small account, you certainly won't be able to withstand these large drawdowns (when a trade goes against you before it turns around and starts to go in your favor) by depositing more funds, so you have to be very careful when short selling.
Another issue is that sometimes the owners that you borrow shares from will want to sell their position and the broker will ask for them back. When this occurs, the broker will issue what's called a **buy-in**. This is similar to a margin call, but basically, it just means they want you to cover your trade immediately, or they will do it for you at the current market price. As I mentioned pump and dumps could sometimes for more than a few days. When you short sell you have to locate the shares early or they will disappear, and you won't have another opportunity. This means you have to short sell a penny stock, knowing it most likely will go against you initially, and you will hold a "paper loss."

Buy-ins typically occurs after you have held a stock for a period of time although sometimes it could be much sooner. If the stock has gone against you significantly and you get issued a buy-in, then you are going to take a big loss potentially. Buy-ins will usually be issued to all of the customers of a brokerage that are currently short a stock at the same time. When many of these people all try to buy to cover at the same exact time, this can create a massive short squeeze because it can be very difficult to execute a trade when hundreds of other people are trying to do it at the same time. Buy-ins can cause short sellers huge losses!
Some people claim you can make thousands short selling penny stocks and the honest truth is that it is possible, but these people are lying about the fact that you can start out with a few hundred or a couple thousand dollars and that it's easy to sell penny stocks short. Trust me when I tell you very few people will be able to do this successfully when they start out, so you might as well spend your time learning a strategy for buying penny stocks when starting out with a smaller account.

Short selling is much more difficult than buying because your entries need to be near perfect for you to profit on trades and you need to be much quicker in precise in when to take profits. It's extremely difficult to do this, and a great majority of people that try to become penny stock short sellers will, unfortunately, end up wasting lots of time and money. The barriers to entry are just too high for the average person regardless if every penny stock eventually implodes or not (which they almost always do).

Instead of trying to short sell OTC penny stocks, I suggest people focus on short selling stocks in the $1.00 to $15.00 range which trade on the big board exchanges I mentioned earlier. These small and micro-cap stocks are usually easier to borrow and generally much more liquid than OTCBB stocks. Since stocks go up and down, it is important that a trader learn to trade both directions (long and short) or else they will miss out on a lot of opportunities, but short selling isn't something that you will want to rush into.
CHAPTER 5

What is a Trading Plan?

The diagram above shows the components of a trading plan. Utilizing a trading plan is one of the most essential tools a trader must-have. In fact, one of the common traits of ALL successful traders is a defined trading plan. Not only do you need an overall plan, but it is also important to have a trading plan for all strategies that you plan to employ in your trading. What I have found with myself and all successful traders that I have talked with, having a plan will allow you to stay focused and helps to reduce or even eliminate emotion. A trading plan tells you how to find stocks to trade when to enter and exit, how much money to invest in each trade, and how much risk (potential loss) to accept each time. It is imperative to know this information prior to going into every single trade, or you will most definitely end up on the wrong side of the market a majority of the time! This is a big reason why the market sometimes seems like somebody is watching every move that you make, and the price always seems to go in the opposite direction of what you expected. The key market players and the algorithms that they employ are in fact, watching every move and they will take all your money if you let them.

Paper Trading
Avoid using your real money until you build enough confidence in your trading. Testing the penny stock market with a demo or paper trading account is a smart choice; it will prevent you from initial loss and probably which many times will result in having to give up on trading before you have a chance to figure it out. While the psychological aspects of the market are missing from paper trading, I still will assist in getting a feel for the basics of trading and lets you build confidence about the trading process you are using. Demo trading for at least a month or until you can start to earn a “fake profit” is a great idea because it will help you to measure your knowledge and skill level.

Manage Your Emotions

Emotional control is an extremely important skill to have if you want to survive in the penny stock market as it submerges you into a competitive and sometimes stressful environment. You must decide on the type of trading plan and style that is most suitable to your personality and the lifestyle you choose to live. Random decisions in your trading can result in failure, which would be the result of anxiety, anger, lack of rest, or proper sleep. For this reason, being “emotionally fit” is an important factor in becoming a successful trader. Trading is much more emotionally driven than most people may think, but until you jump in with real money on the line, you won’t experience this.

Know Your Limits

Allocating a limited percentage of your income or a fixed amount of your savings to trade in the penny stock market is a very smart thing to do when you are starting out. Risking all your income or borrowing money from a credit card or home equity line, in the hope of earning good returns is extremely foolish. Limiting your losses is one of the winning factors in trading because it will put the brakes on your inevitable over-enthusiasm and prevent further losses. Always use a stop-loss order to prevent a small manageable loss from turning into a huge, pain one.

Plan Profit Targets

In a proper trading plan as in knowing your limit, having defined profit targets is also extremely important. Every businessman works for-profit, and a disciplined businessman always has certain goals to achieve. As a trader, you should also set your daily, weekly, monthly, or yearly targets and work towards achieving these goals. Generally, your potential profit targets should be at least 2 or 3 times the average risk on a trade. Setting a percentage of your trading account as a profit target and reassessing this amount regularly is an important factor in your trading plan.
Plan Your Exits

In general, traders focus more attention on buying signals than they do on selling. Unable to accept loss, many traders forego selling, which almost always results in further losses. Even successful traders end up with more losing trades than the winning trades at times. But with the practice of limiting losses and managing one's money, they are able to earn profits. Plan ahead your exit points, which usually are stop-loss levels and take profit targets. Don’t let any emotional decisions take over the trading process because this is detrimental to your success as a trader.

Utilize a Trading Journal

Keeping good records of all your trades is a good practice, which is a sign of a successful trader. When you are learning this will help to see what you are doing right and wrong to improve on your good habits and minimize your bad ones. As you progress as a trader, these records will allow you to eliminate most of the bad trade decisions which will help you increase your profits substantially. At the end of the day, thoroughly review your trades and be strict about critiquing yourself. This will help you a grow as a trader as you reflect on the current days trading session.

Consistent Profitability

Consistently profitability is a goal of all traders but unfortunately it’s not achieved by many. It’s obvious what “consistent profits” means but most people don’t actually know the true meaning. Consistent profitability does not mean you make money every day, but rather on a monthly basis. There are 20 trading days in a month which means that to have consistent profits, your winning trades must cover all of your losing trades after all expenses and fees. This is the reason why in trading you never want to place too much emphasis on a single trade. Unfortunately most new traders don’t understand this concept and end up messing up by averaging down or holding on to their losers for too long. These two issues are the main reasons why most people are not able to overcome the learning curve since they lose all their money before they develop the proper habits and mindset that consistently profitable traders must achieve.

It takes time for a trader to reach consistent profitability because they must go through the various levels of progression. First they start out as a consistently unprofitable trader that loses money all the time. Next they start to figure the basic process out a bit, but they still end up losing a little money anyway because they still don’t have a trading plan and are often focusing on too many different strategies. Eventually their trading skills progress and next they are breaking even after factoring in trading fees but they still are letting their losing trades wipe out their profits. This usually starts to get annoying so they soon realize they must minimize these
losing trades and this starts to result in winning just a little bit. They generally figure this out by starting a trading journal to log their trades and analyzing their trades on a regular basis. Finally they write down their trading plan, they start utilizing a fully tested trading system and ultimately they reach consistent profitability. This takes months or even longer to go through all the stages and most people don’t have the discipline and the patience to persevere, which is why many people never reach their goal.

By developing a trading plan a trader is able to have a road map to guide them on their way to reach their destination. Once a trader has this roadmap in place, then they must execute their plan day in and day out and effectively let the statistics work in their favor. To do this a trader will execute trades which their trading system will present to them. These are the trade setups and patterns which have a repeatable and measurable outcome. These have been both back-tested with historic data and/or forward tested with a small amount of real money. After a trader becomes comfortable and confident in their trading system, they have a series of events in their mind which must occur in order to justify putting their trading capital at risk. It is only during these high probability opportunities where it makes financial sense to be involved in the market. The rest of the time a trader must sit on their hands and avoid putting themselves in a position where the odds are stacked against them because these low probability situations will often result in losses. Because a trader has seen these specific situations numerous times in the past, they are able to visualize exactly what “should” happen as the stock moves the same way it has done in the past. At these times a trader is able to calculate how much of their trading capital to put into the market, along with entry and target exit prices and a specified risk level by using a predefined stop loss. When utilizing their trading system and following their plan profits will start to multiply.

New traders often think they must be involved in the market all of the time to earn as much money as they possibly can. The reality is, this is not good because it means taking on trades which are not ideal. Trading is not difficult when you really break it down but unfortunately most new traders complicate it by letting their emotions get in the way of adhering to a trading plan. And without that plan, there’s very little chance of reaching profitability. These new traders generally have a vision of windfall profits in their head and they often learn the hard way that the penny stock market isn’t necessarily a means of becoming rich quickly. Over time it certainly is possible to make large sums of money but you cannot expect this to occur without building a foundation first.
CHAPTER 6

Golden Rules of Trading

1.) Forget about news and just follow the chart. All information will be revealed in a stocks chart prior to the news. We as traders are not smart enough to know how the news will affect the price and very few people are except for the people with inside information. The chart already knows the news is coming, and it will be broadcast to those that look closely at the chart. While the news certainly can cause volatility in a stock which is good for us as traders, the hidden technical levels are where we want to focus our attention.

2.) You should buy the first pull-back from a new high or short sell the first bounce from a new low. There's always a trader that missed the first trade that will be looking to partake on the second round. Even if you are wrong and the stock reverses on you, your risk level will be lower because the stock has already pulled back.

3.) Buy when a stock is approaching support, and sell when a stock is approaching resistance. All traders see the same levels, and they are all just ready to get in. Don't gamble on whether a stock can break through one of these important price levels but instead use common sense and place your entries and targets around these zones. You don't have to sell your full position but it makes sense to sell for a partial profit in case the stock reverses on you.

4.) Short sell rallies rather than sell-offs. When stocks have dropped a decent amount, short sellers will have a profit and be ready to buy to cover. If you short sell oversold stocks, you risk being squeezed hard. Short-covering rallies are great to partake in if you are long, but very scary if you are stuck short.
5. **Don't buy up into an important moving average or sell (short) down into then.** Moving Averages act as resistance from above and support from below. Don't try to buy moving average crossovers. This strategy no longer works in stocks. It may work for ultra-short-term scalping in commodities and other leverage securities, but the average person does not have enough capital to compete with the professionals that execute strategies using high-frequency algorithms from collocated servers at the exchanges.

6. **Don't chase a stock if the stock has moved past your initial entry by more than a small amount.** Markets will almost always reverse the minute you enter, and if it's a long way to the original entry price, you could get badly burned very quickly. Be smart and sit on your hands if you miss the proper entry price.

7. **99% of the time exhaustion gaps are filled (i.e., island reversal patterns).** Breakaway and continuation gaps are not always filled for a long time. Trade in the direction of gap support when possible. Wait for a gap fill prior to entering your trade if the gap was a "standard gap."

8. **Trends usually test previous support or resistance prior to continuing.** Enter at these levels on a pull-back even if it is difficult for you. Use Fibonacci tools in order to predict where these pull-backs should conclude.

9. **Trade with the direction of the market not against it.** Follow the flow of money in the overall market. The exception to this is when trading a high-volume penny stock since these stocks have very little correlation to the overall market, but be warned that when the overall market is down more than 2.5 percent, 99% of stocks will become correlated to the indices. In times of chaos or extreme uncertainty, which doesn’t allow you to follow your plan, get out of penny stocks immediately.
10.) **If you have to look too hard at the chart, what you are looking for is not there.** The patterns should be obvious once you know what to look for. While the superior patterns don't occur as frequently, you can reduce your position size on lower probability setups and have a shot at increasing your monthly returns with a similar level of risk.

11.) **Sell the failure of a stock to break above the second high (double top), buy the failure of a stock to break below the second low (double bottom).** After sharp pull-backs, the first test of any high or low almost always meets significant resistance. Look for the breakout (breakdown) on the third or fourth attempt. Triple tops (bottoms) are much less common than double tops (bottoms).

12.) **The trend is your friend in the last hour. When volume increases at 3:00 pm, don't expect anything to change.** Institutions usually place their trades into the close rather than with the amateurs at the open. Since they take large positions it is unlikely that large price movements at this time of day are fake outs.

13.) **Avoid entering trades during the first 5-15 minutes after the open unless you are a scalper.** Stocks rarely trend during this time and usually make false moves. The exceptions to this rule are overextensions, bounces and gap trades.

14.) **Downtrends usually reverse after topping action, two lower highs and then a double bottom.** If you short the first big move without confirmation of a lower high or a double top of some sort, be ready to take profits immediately in the event that the trade goes your way. Stocks almost never put in a top without confirmation.

15.) **Bulls live above the VWAP and bears live below it.** Sellers eat up rallies below this key level, and buyers come to the rescue above it. Volume weighted average price has become an
important tool in today's market. You don't actually want to trade off the cross of this price level because the market noise will chop you up and eat you alive. Instead, just use it to measure the current market bias, so you know if you should be long or short.

16.) In general, the price of a stock has memory. What happened the last time price hit a specific level? Chances are it will do it again at least the first time it gets back to this same level. After the second attempt, all bets are off so plan accordingly and remain disciplined.

17.) Massive volume usually signals a change in trend. Capitulation and blow-off tops/bottoms usually result in consolidation or sideways price action and choppiness. Monitor changes in volume to find market turning points or potential for trend continuation.

18.) Trends never reverse quickly, but tops are very defined. Reversals take time to build and result in specific patterns. The first big drop almost always finds buyers, and the first spike almost always finds sellers.

19.) Bottoms take much longer to form than tops in general because many waves of buyers must be shaken out prior to a true bottom forming. Fear affects buyers more quickly than greed and causes most stocks to drop about four times faster than prices rise.

20.) Beat the herd into and out of the trade. You have to take their money before they take yours because trading is a zero-sum game! One person always wins, and one person always loses. Don't be on the losing end. Learn to execute your trades efficiently. Use a direct access broker. Forget retail brokers if you can afford to. These brokers are made to buy and hold trading, and even then they suck! They will give you poor executions and in penny stocks, and you will lose a lot more money. On top of this people have the misconception that some retail brokers commission rates at $7.00 or $10.00 per side are cheap. This is not true because most direct access brokers charge $1.00-4.00 or less per side.
The picture above is of my personal trading computer. While it's true you don't need more than one monitor or a laptop to trade successfully using my strategy; it sure makes things a lot easier when you don't have to switch back and forth between different software. Also, the more monitors you have, the more stocks you can watch at one time, which increases the number of potential trading opportunities you can find. I started out with just one laptop, but later added six Acer monitors and a much faster trading computer when I began earning money.

I use a custom-built laptop which I purchased from tradingcomputers.com. The model is called the Falcon F-15 Pro. I am very happy with this laptop, and the support that this company provides is top-notch. (Please note I have no affiliation with this website).

I have four monitors mounted to a quad monitor stand, and two monitors mounted to a dual monitor stand. I have a Nvidia 1060 graphics card which has two mini display ports. My laptop also has one HDMI output that comes from the computer's internal graphics card. I also use a dell 3.0 USB docking station which has two additional HDMI ports and one display port. In
general, Laptops don’t usually support more than three monitors, but I was able to figure this workaround which lets me have six monitors plus the laptops screen, without the need for a desktop computer. Obviously, a desktop is a little cheaper, but when you frequently travel to places like Asia or the Maldives like I do, it’s advantageous to have a robust trading laptop. The laptop has 32 GB of RAM and a one terabytes SSD hard drive which runs all my trading software smoothly with no lag of any kind. I also have an external eight terabyte hard drive for my backups. I choose to use an external Microsoft wireless comfort 5050 optical mouse and keyboard so that I have no need to use the laptop’s keyboard and. I also keep a wired keyboard and mouse just in case the batteries run out while I am in a trade. Finally, I have an APC Battery Backup-UPS PRO BR1000G to protect me in the event of a power outage when I am in a trade. It provides a backup battery for 57 minutes. This allows me to exit my trades and reduce or eliminate the chance of serious loss of capital. Every serious trader needs this protection!

Although it may seem like a significant investment to buy this hardware, once you become successful at trading, you soon will realize that you can potentially make thousands of dollars literally in minutes. When this occurs, you will find spending a few hundred here, and there is next to nothing. When you begin to earn thousands in a single day, you really will start to wonder how you worked for $25 an hour for so long! You don't need this when you are paper trading or if you are just starting out with a small account, but as soon as you are breaking even or profiting a small amount, I would suggest investing in this hardware. It will pay for itself 10X after just a short period of time, and you'll soon realize how much nicer it is to look at multiple.

I have been using multiple monitors now for more than 15 years, and I would never go back to just one. Even when I am on the road, I bring some USB portable monitors along so that I can trade more easily.

My Proprietary Trading System:
If you want outdated and useless trading methods that will cause you to lose a lot of money, then feel free to buy almost any penny stock trading product online. The penny stock industry is full of people that earn a living by ripping off unsuspecting victims that don't know any better. These people can't make money actually trading for themselves, so instead, they sell worthless products to their unsuspecting victims. There are many so-called trading gurus that are trying to steal your money with bogus claims, false promises, and severe misrepresentations. They sometimes sell their alert services for $50 to $200 a month or more, and some people even give them away for free. These people know that the majority of traders will fail anyway, so they just sell your "dream life," but don't actually provide a roadmap to actually get there.

The Penny Stock Prophet, Penny Stocks For Dummies and Penny stock Egghead are just a few rip-offs that come to mind. Unfortunately, there are thousands more of these people online. I was ripped off by these guys when I was learning, and I don't want you to be ripped off like me. Some of the most well-known people that often appear on television or social media are some of the worst offenders.
This is exactly what I am talking about. DO NOT fall for it!

Many times gurus also offer their worthless trading DVD's for $200-$2000 and 99.9% of these are a complete rip offs as well. They show basic strategies like buying when the 50-day moving average crosses the 200-day moving average or what is a candlestick chart. You can learn all this for free by searching Google and YouTube, but the information isn't going to help you to profit in penny stocks anyway, because as I mentioned "classical" technical analysis is dead today. Please be aware that in general, you get what you pay for, but in the penny stock industry, it is a different story. You will most likely receive a worthless product at a high price.

When I was starting out, out of hundreds of penny stock trading products, I couldn't find anything that even came close to allowing me to learn to trade and start profiting. Most courses or books tell people to invest in penny stocks for the long term, which is the WORST THING YOU COULD EVER DO! Alternatively, they try to convince people to pay for some trading alert service even though it's near impossible to follow another person and make consistent profits in penny stocks. Don't ever listen to anyone that says you should invest in a penny stock long term because this is awful advice and you will truly regret it! Invest in yourself and the money will follow...

Why Trading Isn't for Everyone!

Not everyone is cut out to be a trader from the start. Some people don't have the patience. Other people are too impulsive and have gambler tendencies. Others are too risk-averse and therefore afraid to pull the trigger. The good news is that trading is a skill that can be learned. Success at trading really comes down to having the passion and a willingness to overcome any obstacles that might end up in your way during the learning process. Some people are naturally
cut out from trading, and these people may excel right from the beginning. The only way to know if you are one of these people is to get involved and find out.

**The Magic Question**

I am sure many people are wondering why someone would share a profitable trading system rather than keep it to themselves. The answer is quite simple. Most people that are looking to learn to trade are not serious about trading. Trading takes some time and effort to learn. Despite being interesting trading, most people are lazy and will never spend the time needed to learn to trade. For this reason, even though a person provides a profitable system, most people won't utilize it.

Think about it like this: Once you know how to trade profitably, nobody can ever take that away from you. You literally will have a tool to make a significant amount of money for the rest of your life. Having this skill is life-changing because you won't need to work for hourly pay any more if you choose not to. On top of this, the profits that you can make in penny stocks are very different than a typical salary because it's actually possible to earn a monthly or yearly salary in minutes. I hate to see so many uninformed people lose all of their money to the crooks involved in this rigged market and even worse, I dislike seeing people give their hard-earned money to internet marketers who are masquerading as trading gurus.
CHAPTER 9

Conclusion

Most people will never learn to trade profitably, but I want to change that for you. If you are serious about learning to trade then I suggest you consider Penny Stocks Behind the Scenes: Beat the Promoters At Their Own Game & Profit. This is a course and E-book that will teach you my unique strategy and technical trading system for trading penny stocks successfully. The trading system in this course is completely proprietary, and there is nothing else like it available online. This course explains the methods that I use to earn consistent profits. You will learn everything you need to set up my trading system exactly like I do.

Inside You Will Learn:

- How I find penny stocks that are primed to make huge gains.
- Advanced technical analysis and how to read charts effectively.
• How to configure my proprietary trading system to time the market.
• How I use money management to minimize my risk and maximize returns.
• How to develop a fool proof trading plan to earn consistent profits.
• How to understand market psychology and use it to your advantage.
• The best online brokers, trading software and trading tools I use to profit.
• My daily routine that I’ve used to trade full time since 2004.
• So much more I can’t list it all here.

Here’s What You Get:

Testimonials

There are thousands of students that have gone through my course and book. Many of them have sent me reviews telling me I am crazy for providing my system. I really enjoy receiving reviews because it proves that I am helping people to learn to trade and changing their lives. I have met a number of my students in person over the years and have developed friendships with people all around the world. Some of my students have quit their full-time six-figure jobs at places like eBay and Deloitte, to become full-time traders. Others trade part-time while working at their day jobs and double or even triple their salaries through trading. Although
these people probably are right that I am crazy to provide my trading system, I feel it is my duty to help people that really want to learn to trade successfully. I have had a lot of success in the markets. I believe it’s best to give back to the trading community because if it weren’t for a few people that helped me learn while I was starting out I’d probably never be where I am today.

"Your Ebook Was The Best I Have Ever Read"

"I started looking for a way to learn to trade penny stocks and came across your website. I have to say your ebook was the best I have ever read and it was exactly what I have been looking for! It is worth every penny you charge for your information. Thank you. If anyone is looking for an informative ebook that I think is ingenious I would recommend this ebook.”

- Patsy

"A Well Thought Out And Very Descriptive Book"

"Penny Stocks Behind The Scenes was a well thought out and very descriptive book on all that is required to focus on successfully trading penny stocks. Dan does a great job breaking down technical analysis, chart patterns and money management for beginners. Then he gets deep into strategies on how these stocks normally play out and how you and I should bank on them successfully. Most importantly, Dan shares with us the over all understandings of a successful trader. This book has something for everyone”

- Ganesh

"This Book Is Like Caviar For A Really Good Price!"

"Dan, I simply loved your book and learned so much from it. What I liked most about it is that it helped to answer many questions that I had for a long time. I read through it once and for sure with zero exaggeration I will read it three or four more times to record all the valuable information in my mind. The book is very well done, and there is no need to think about buying it, just buy it and you will enjoy it. This book is like caviar for a really good price. Thanks again and I am very happy I bought your book!"

- Krystian
“90% Of The Time I Have Gone Against Your System I Lost Money!”

"Thanks for the great course, I really enjoyed it. It has completely changed the way I view penny stocks. Before I felt like a calf in the bull pen and now I feel like I have some big horns! Most importantly, my confidence in my ability is higher than it has ever been. The odd thing is I have made the most money applying your trading system to the option market, and I am up several thousand this week after using some of your advanced technical analysis methods. 90% of the time I have gone against your system I have lost money. This confidence has allowed me to withdraw a few hundred thousand from my managed brokerage account and start managing it on my own, and I am already doing twice as well.''
-Adam

“Expand Your Knowledge Of the Penny Stock Market”

“This book is a quick read with an in-depth technical analysis overview. I recommend using this book to expand your knowledge of the penny stock market in order to increase your profits and minimize losses. Thanks!

-Jason

“It Really Opened My Eyes”

“I have been trading for 3 years now so I am not a beginner but I have to say that this book is awesome! It really opened my eyes on some topics. This book is full of hot tips which all traders will find useful. Thank you!

-Seto

“Required Reading For All Beginning Traders!”

“This book should be required reading for all beginning traders! There is some excellent information given and some good tips. Even veteran penny stock traders could pick up some useful tips. I wish I would have had something like this when I started trading.

-Scott

“I Found The Book To Be Very Informative”

“I am new to trading but I found this book to be very informative. I think it is great for beginners!”

-Kesha

“Unique And Valuable”

“I found the information in this book to be unique and valuable. The author is very helpful. Great book!”

-Paul
Fortunately, after thousands of sales my return rate is effectively 0%, so I am confident that my students have been fully satisfied. In fact, I am so confident that my course will help you to become a self-sufficient and profitable trader, that I am actually interested in having you send me a short review after you read it.

DID YOU KNOW THAT:

If you're involved in penny stocks with no plan and no profitable trading system, you are making a huge mistake? Do you realize you're risking absolutely everything? I've been there, and believe me, losing is no fun. Instead, why not learn from someone who has been there and done that; someone who lost big but turned it around by deciphering how the market really works. It's time to separate the gamblers from the pros. If you're looking to make a quick buck, look elsewhere. If you're ready to implement a system that's kept me profitable for the last fifteen years, you owe it to your bottom line to get my course and E-book today. Here's what I want to do for you... I want to help you make the penny stock market work for you. All I ask is that you're serious about your success. Let me ask you one final question: Do you want to bring in substantial profit month after month or would you rather struggle and flounder? It's completely up to you, but if long-term wealth is important to you, and you want to make that money with penny stocks, there's just one button you need to click below.
Please note the order page opens in a new browser window. If it will not load, it is probably due to your pop-up blocker. Hold the shift key and then click the link or you can just copy and paste the link above into your browser’s address bar. If you have a problem, contact me: here. Please read and agree to my disclaimer and terms of use which includes my full return policy. By purchasing you are agreeing that you have read and agree to my terms and conditions and my disclaimer. This is an electronic product so no shipping is necessary because you will receive a download link immediately.

**PS:** I told you that you couldn’t just try penny stocks, but I’m going to let you try this course. If you put down the money and follow the formula I’ve laid out for you, and if after two months you’re not satisfied, I’m happy to refund your money.

**PSS:** You'll be in a position to profit handsomely from the penny stock market – month, after month, after month. You'll finally be able to achieve success in the market that you always knew was possible – the success that has never materialized for you... Until now!

**PSS:** Now's your chance to make the market work for you and earn back all the money you've squandered and then some. There's really no risk to you with my 60-day money back guarantee. If you are ready to beat the learning curve just click get buy now!