



Lesson 1: Getting Started





Set up an Online Brokerage Account

There are a lot of online brokerages so do your research and decide which is best for you based on the minimum deposit amount and commission fees per trade.

I personally use Etrade.

STEP 02

Call Customer Service & Speak to a Rep

When you decide on an online broker, call the customer service line and have a representative walk you through the application process and demonstrate their trading platform to you.

What good is a trading account if you don't know how to use it?

STEP 03

Full Trading Platform

I highly recommend everyone also uses a full trading platform. Most of the online brokers have their own full trading platforms with Level 2 Quotes and charts but might require a certain account value of more than \$20,000 to use it for free.

If you don't use your broker's platform, I recommend Equity Feed or Alpha Trade for Level 2 and charts.



Level 2

This shows you the prices and share amounts of existing orders for the stock. By looking at Level 2, you can see how many people are bidding or trying to buy the stock versus how many are offering or trying to sell the stock. Full trading platforms also include "Time & Sales" data. This shows you the time, price, and share amount for every executed trade on the day.

Level 2 is crucial when trading penny stocks.



Not Your Average Stock

Penny stocks are very different than the average stock you hear talked about in the Wall Street Journal or on CNBC. They typically, but not always, trade below \$1.00 a share and have low levels of trading liquidity, or volume. The key to trading penny stocks is to always focus on liquidity. This will ensure you can easily enter and exit your position.

Focus on Liquidity



Price Movement of a Penny Stock

Opposed from a main listed stock that might move because a large fund or institution decided to acquire a position, penny stocks' biggest catalysts are generally breaking news, hype on speculation, or newsletter promotion. It is important to note that penny stocks are often the target for scammers and manipulators looking to make a quick buck. Companies also often times are forced to dilute the company but issuing more shares in order to raise money for operations. These factors can greatly influence the price movement of a penny stock. That is why it's very important to do your research on companies, look at their share structure, and know the history of the people associated with the company.

Do Your Research



Holding a Penny Stock



How long should you hold a penny stock? Typically, penny stocks aren't the best long term investments. But they do make for amazing trades. Sure some penny stocks have gone on to make multi-month runs gaining well over 1,000%, but the average trade will last anywhere from a few short minutes to a day or two. No one ever went broke taking profits so if you're up 30% or 40% on a trade, take it. Don't be greedy. Don't always try to catch the 500% gain, it'll come. It's more important to lock in the smaller gains and let your profits build. That's how you grow your portfolio.

Don't be Greedy



Cut Your Losses

Equally as important is knowing when to cut your losses. Set a limit as to what you are willing to lose and stick to it. Maybe 15%. You are going to make losing trades, accept it. The best traders in the world make losing trades 50% of the time. But they know how to minimize losses and maximize gains. Don't ever let one bad trade destroy your portfolio. Don't ever fall in love with one trade either. The beauty about the stock market is that it's always open tomorrow. There will always be another trade.

There will Always be Another Trade

Below are examples of Bullish Chart Setups:



50day MA (Moving Average)

The average closing prices of a stock over the last 50 days. A break of this line could signify a confirmed breakout. We also look for stocks that already trade above it which may indicate there is less upward resistance.



200day MA (Moving Average)

The average closing prices of a stock over the last 200 days. A break of this line may confirm a bull run but also may signify that the run may be over and act as a resistance barrier leading to retracement or consolidation. If a stock is above the 200day MA, it will typically act as support. If a stock is below it, the 200day MA will typically act as resistance.



MACD (Moving Average Convergence Divergence)

Shows the relationship between two moving averages of prices. The MACD is calculated by subtracting the 26-day exponential moving average (EMA) from the 12-day EMA. A cross of the MACD Line and Signal is a good indicator that the trend is going into positive divergence which may lead to a bullish breakout. If the line crosses over the 0.0 region, bullish divergence is usually confirmed.



RSI (Relative Strength Index)

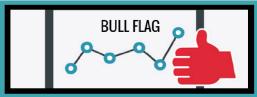
Compares the magnitude of recent gains to recent losses in an attempt to determine overbought and oversold conditions of a stock. Generally we like to see this on an upward slope around the 50 area. Between 50-70 is usually what we refer to as the "Power Zone". Above 70, a stock is usually considered "Overbought" while below 30 usually shows a stock is "Oversold."



Bollinger Bands

Bands plotted two standard deviations away from a simple moving average used to measure volatility. When the markets become more volatile, the bands widen (move further away from the average), and during less volatile periods, the bands contract (move closer to the average). The tightening of the bands is often used by technical traders as an early indication that the volatility is about to increase sharply.

Below are Examples of Attractive Chart Set-ups:



Bull flags, also known as bullish pennants, are my favorite chart pattern and are considered a continuing trend pattern. They typically form as a stock consolidates after a sharp move higher. During the consolidation, the stock makes lower highs and higher lows bringing the price action to what is known as an inflection point. The result is price action that resembles a flag on a flagpole. When the trading range tightens, a stock breaking out of a bull flag will trade higher than the previous high building momentum as the uptrend continues. Traders will often use the highest low made right before the stock broke out as their stop loss, or price they will get out if the stock falls.







Double Bottoms are reversal patterns. These occur when a stock has been in a steep downtrend and finds support. After a stock has a minor bounce, the first low is in place. Then, once a stock dips down to test the first low or support level and does not go any lower, a double bottom is in place and the stock will usually bounce from that level establishing a new uptrend. Traders use the two lows or support as their exit point should the stock fall any lower.



Descending Wedge patterns are also trend reversals. These occur when a stock is in a downtrend and is making lower highs and lower lows. When a stock breaks above the previous high to make a higher high and does not fall back to make a lower low, it is said to have broken out of a descending wedge and is typically followed by a new uptrend. When a stock breaks above the previous high to make a higher high and does not fall back to make a lower low, it is said to have broken out of a descending wedge and is typically followed by a new uptrend.

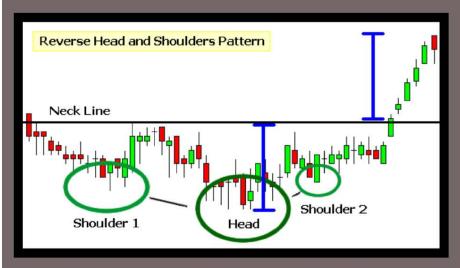


Attractive Chart Set-ups (continued):



Head and shoulders patterns come in two different types, one bearish and one bullish (known as a reverse head and shoulders). But before I get into a reverse head and shoulders it is best I explain a normal head and shoulders pattern first. A head and shoulders pattern is a trend reversal pattern. It occurs after a stock has had an uptrend. In this pattern, a stock clearly makes three tops with the second of the three being the highest. This high is known as the "head." The other two lower highs are known as the "shoulders". And the base of the trading range is known as the "neckline." A break below the neckline is a bearish move and indicates a new downtrend is in place.







Head and shoulders patterns come in two different types, one bearish and one bullish (known as a reverse head and shoulders). But before I get into a reverse head and shoulders it is best I explain a normal head and shoulders pattern first. A reverse head and shoulders has the same concept as a regular head and shoulders pattern except the pattern is inverted or upside down. Instead of the stock making highs, it's making lows with the lowest low being in the middle of the two shoulders. A break above the neckline in a reverse head and shoulders is a bullish indicator and typically results in a new uptrend.

Trading School





Lesson 4: Fundamental Analysis



The best places to check this information are

www.otcmarkets.com www.finance.yahoo.com

You can also find this information in a company's corporate filings.

This section goes back to earlier when I discussed doing your research to avoid the scammers and manipulators in this market. Always familiarize yourself with what the company does, their management team, products or services offered, and overall health of the company. Don't ever buy a stock whose company has no significant operations, no matter what the stock is doing. Companies with no real operations, also known as "shell companies," are often times subject to the highest form of manipulation and pump and dump promotion. Insiders and large shareholders will often times hype up these stocks so they can dump their otherwise worthless shares on unsuspecting investors.



Market Capitalization

The total valuation of a company. This is calculated by multiplying the current share price by the total number of shares outstanding. If you come across a company with little or no revenue that has a market cap equal to some main listed companies generating millions of dollars in revenue, you should be weary. If a company has a \$500 million market cap with no revenue or patented drugs or technology, more likely than not the share price is over-inflated.



A stock with 1 billion shares outstanding and 800 million shares in the float trading at \$0.01 (\$8 million dollar float) is less likely to make a big move than a stock with 250 million shares outstanding and 50 million shares in the float at \$0.01 (\$500,000 float).

The smaller the float, the less volume and interest it will take for a stock to move.



Restricted Shares

Shares that are typically issued to corporate insiders and management. These shares cannot be sold until the specified holding period is over. Holding periods are typically 6 months or 1 year.



The Float

The number of shares actually available for trading. This number does not include restricted shares. Stocks with low floats can post massive gains very quickly because of the sheer lack of shares available for trade.



Outstanding Shares

The total number of shares currently held by all shareholders, including insiders, company management, funders, institutions, and individual retail shareholders. This number includes the float and restricted shares.



Authorized Shares

The maximum number of shares a company is legally able to issue. The authorized share amount will almost always be greater than the outstanding share amount but never less than. It is possible for the outstanding and authorized share amounts to be equal if the company is fully diluted and have issued all of the shares they are legally permitted to issue. This number includes the float, restricted shares, and outstanding shares

Don't forget, make sure you have a full trading platform with Level 2 and charts.



Use a Limit Order

Limit orders set limits on the price you are willing to buy or sell a stock at versus market orders just buy or sell the first available price until the order is filled. Most online brokers do not allow market orders for penny stocks because the market can be so thin.



Aggressive vs. Passive

If a stock is \$0.009 x \$0.0095 (bid x ask), an aggressive buy would be placing a limit order at the ask price of \$0.0095. This is you saying you want to buy the current asking price for the stock. A passive buy would be placing a limit order at the bid price of \$0.009. This is you saying you want to buy the stock but aren't willing to pay the current asking price so you will sit on the bid and wait for someone to sell you their shares. While the aggressive buy is you buying someone else's shares. Placing orders at or slightly above the asking price will almost else's shares. Placing orders at or slightly above the asking price will almost always ensure your order gets filled. If a stock is moving higher, sitting on the bid might result in your order not being executed and you missing out on the move.



Chasing

Do not chase a stock. If you miss a move, let it go and try to buy in on a pull back. Too many times traders see a stock running and they try buying again and again but it's moving up faster than they can place their order. Then, by the time their order fills, they have bought the top while other traders are taking profits.



Set a Stop Loss

Always know how much you are willing to lose, maybe 15%. And no matter what happens, stick to that rule. This will save you from losing a lot of money. Protect your money. You can always buy back into a stock. Understanding Level 2 is extremely important when trading penny stocks. Because liquidity is so important for your trade to be successful, you must understand where the liquidity is so to best capitalize on it.

Ideally, you want to look for a stock with more market makers on the bid than on the ask. This could be there is more support or demand for the stock than resistance or sellers.

Here are some examples of attractive and not so attractive Level 2 setups:

Look for Support

This setup shows a lot of market makers at \$0.0005 with only 2 at \$0.0006 and a couple more at much higher prices. This is a great example of support or a "thick" bid versus a "thin" ask.

MMID	Bid	Size	MMID	Ask	Size	
VFIN	0.0005	5000	NITE	0.0006	5000	
LAFC	0.0005	5000	UBSS	0.0006	5000	
AUTO	0.0005	5000	ETMM	0.0007	5000	
NITE	0.0005	5000	HDSN	0.001	5000	
UBSS	0.0005	5000	AUTO	0.003	5000	
ETMM	0.0005	5000				100

MMID Bid Size MMID Ask Size NITE 0.0024 5000 NITE 0.0025 5000 ETMM 0.0017 5000 HDSN 0.0026 5000 UBSS 0.0012 5000 ETMM 0.0026 5000 VNDM 0.001 5000 AUTO 0.0026 5000 SSGI 0.003 5000 V

More Sellers than Buyers

This Level 2 box is very different than the previous one. Notice the lack of market makers on the bid versus 4 market makers at \$0.0025 and \$0.0026. This demonstrates more sellers than buyers and is something you would definitely want to stay away from.

Wide Spreads

This Level 2 is an example of what is known as a "wide spread." Wide spreads are when the difference between the highest bid price and the lowest ask price is large. In this example, the spread is 127%. If you bought the ask and sold the bid, you would lose more than half your investment. Not something you want to be involved in.

MMID	Bid	Size	MMID	Ask	Size	
ETMM	0.0022	5000	DOMS	0.005	5000	•
NITE	0.0021	5000	CSTI	0.0056	5000	
CSTI	0.002	5000	AYME	0.006	5000	
DOMS	0.0015	5000	NITE	0.007	5000	
HDSN	0.0003	5000	HDSN	0.0105	5000	1
VFIN	0.0003	5000	PERT	0.04	5000	

MMID	Bid	Size	MMID	Ask	Size	
ETMM	0.0125	5000	UBSS	0.0129	5000	
NITE	0.0125	5000	VERT	0.013	5000	
UBSS	0.0121	5000	NITE	0.013	5000	
BKRT	0.012	5000	ETMM	0.013	5000	
HDSN	0.012	5000	HDSN	0.0156	5000	
PERT	0.011	5000	PERT	0.019	5000	¥

Thick Bid & Ask

Here is an example of a thick bid and ask above. This is an ok setup to trade.

Gorgeous!

And lastly, we finish off with a very attractive Level 2 setup as you can see plenty of market maker support on the bid versus very little resistance on the ask.

MMID	Bid	Size	MMID	Ask	Size	
ETMM	0.005	5000	ETMM	0.0057	5000	A
VFIN	0.005	5000	DOMS	0.009	5000	
DOMS	0.0048	5000	WDCO	0.01	5000	
WDCO	0.0047	5000	CSTI	0.01	5000	\mathcal{A}
HDSN	0.0045	5000	HDSN	0.015	5000	
CSTI	0.004	5000	UBSS	0.045	5000	7



There are literally thousands & thousands of stocks out there.

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How do you know which one to trade?

Well, lucky for you, I'm here. I use multiple stock scanners to alert me when certain criteria are met in a particular stock.

Scanners

That criteria is a combination of news, sharp price increase or decrease, volume spikes, and even the formation of certain chart patterns.

Research

And when the stars align, I will alert you via email and/or SMS text message.

Boards

But it's also a good idea to use your own stock scanner. Don't just rely on me because I'm not perfect. Many of the online brokers have stock scanners and Equity Feed has a great one as well. You can also find hot or trending stocks on various message boards like www.investorshub.com and www.investorshangout.com or by searching for certain ticker symbols on Twitter.

You can also find the most active stocks on www.otcmarkets.com.

If you are going to be following newsletters like this one, look for compensation disclaimers as we are often compensated for some of our alerts. The paying party may own shares and are trying to sell them. Please also read the SEC's Investor Warning.

Alerts

Congratulations! You have completed my Trading School and are now ready to begin trading!

Newsletters

I hope this information was helpful. Please do not hesitate to email me directly with any additional questions you might have.

Congrats!

Good luck! I'm glad to have you aboard! Now let's start trading!

I hope these lessons will help further your trading acumen and lead you to great profits and gains!

Good luck...and remember, its a jungle out there!

Congratulations! You have now graduated!