

# The Ultimate Step-by-Step Guide to Day Trading Penny Stocks

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# **Dedication**

This eBook is dedicated to all those who wish to break free of the financial rat race which enslaves the vast majority of people.

To the beginning of your financial freedom.

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# Introduction

Warning: Do not dive into day trading penny stocks without a thorough comprehension of this eBook.

How it all began:

For as long as I could remember, my family was never financially secure. Simply put, we were poor and I hated it.

I was determined never to live like that when I got older so I started to educate myself on how to make money. I've heard of people making money by investing in the stock market so I buckled down and hit the books.

Blue chip, Warren Buffet, CANSLIM, holding, averaging down, compounding, these were terms that I soaked up like a sponge at the public library. Then, I realized something that made my stomach sink.

Little did I realize that long term investing in the stock market on average, only returns 10% A YEAR.

For example, if you do tedious research on choosing the right company to invest in by looking at their balance sheet, industry, competition, fundamentals, cash flow, EBITDA, technical analysis, etc, and invest \$1,000 in it, you'll get \$1,100 after 1 year. And that's not even a guarantee. All that hard work for a measly 10% a year.

That's WAY TOO SLOW for me. I needed something that'll return profits faster.

About this same time, I also started a journey of personal and financial development.

Along this journey, I read a number of books such as Psycho Cybernetics and Rich Dad Poor Dad that involved the power of beliefs and ways to obtain financial freedom.

I read in Rich Dad Poor Dad that you've got to make money work FOR YOU.

Many people reverse this statement. They work FOR MONEY. To them THEY ARE A SLAVE TO MONEY. NO NO NO.

**MONEY IS A SLAVE TO YOU.**

Let me repeat that because it is the underlying thought of all financial success.

## **MONEY IS A SLAVE TO YOU.**

That is a very powerful belief. It changes your whole outlook on finance.

Kiyosaki's main thesis in Rich Dad Poor Dad was to use your money to buy assets, meaning invest your money into vehicles that will give you a nice return.

So I asked myself, what can I buy, with relatively little work that will give me substantial profits fast? It sounded like a question without an answer.

That's where the personal development came in. I read in David Schwartz's The Magic of Thinking Big that if you firmly believe something, the how to part will take care of itself. I **firmly believed** that there was a way to use my money to buy assets that will give me substantial returns fast. I waited for the how to part to take care of itself.

And so I waited. And waited. And waited, till the answer finally came.

The answer.

Day trading penny stocks.

Example A

Stock ABCD increases from \$10.00 per share to \$10.05 per share. A 5 cent increase, a 0.05% increase.

Example B

Stock BCDE increases from \$0.05 to \$0.10. The same 5 cent increase, BUT a 100% increase.

If you invested \$500 in stock BCDE, you would've got \$1,000 – the cost of commissions.

That's making your money work FOR YOU right there.

Now I know most of you are saying day trading=losing all your money.

See, that's the power of beliefs.

The prevailing belief is that day trading is risky, you'll lose all your money.

Because people believe that, their eyes are shut off to the possibilities of making money by day trading. They have tunnel vision. Their belief dictated that. As a result of that belief, they don't bother taking the time to educate themselves on day trading penny stocks.

That's ONE BELIEF.

There is ANOTHER belief that is EQUALLY POWERFUL IN TRUTH.

YOU COULD MAKE A TON OF MONEY BY DAY TRADING PENNY STOCKS and you know what... PEOPLE DO.

So I simply transformed my belief.

**THERE IS MONEY TO BE MADE IN DAY TRADING PENNY STOCKS. BIG MONEY.**

The next question I asked myself was HOW CAN I DO IT?

I asked myself consistently, "How can I identify WHICH stocks will rise in value and how can I lock in those profits?"

I asked myself that question on a daily basis for years and discovered the very knowledge that leads to profiting from day trading penny stocks. That is what this book will entail.

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The information in this eBook refers to a specific niche. It's not general information. It is specialized knowledge that is derived from experience and pain, some of the greatest teachers known to man.

It's a step by step guide that will show you the entire process of profiting from day trading penny stocks from start to finish.

# Chapter 1: Overview of Day Trading Penny Stocks

I know when I first heard of day trading penny stocks, I was totally lost. There was so much vocabulary, so many things to remember, I didn't know where to start. I didn't know how everything fit together. That's what this chapter will solve. This chapter is dedicated to giving you the overall process of day trading penny stocks.

Let's get down some key terms first.

Day trading simply refers to buying and selling shares of a stock on the same day.

Penny stocks are stocks that trade on the OTCBB (Over The Counter Bulletin Board) and Pink Sheets (think of the OTCBB and Pink Sheets as the Nasdaq and New York Stock Exchange of penny stocks). Their typical price/share is around \$0.0001-\$5.00.

Due diligence (often referred to as dd) – refers to the research that is necessary before deciding to buy a stock. It is extremely important.

Market makers – institutions that regulate the stocks on the OTCBB and Pink Sheets.

Bid – the price at which market makers are willing to buy your shares. In other words, *the price you can sell your shares at*. It's the bidding price for your shares.

Ask – the price at which market makers are willing to sell you shares. In other words, *the price you can buy shares at*. It's the asking price to buy shares.

Profit Percentage Gain – the maximum percentage level at which you want to take your profits. For example, if your profit percentage gain is 20%, then you will **always** take profits when the stock rises by 20%. You won't wait for it to go higher. You'll sell and take the 20% profit.

Stop Loss Percentage – the maximum percentage level at which you will take a loss. For example, if your stop loss percentage is 15%, and a stock you invested in falls by 15%, you will **always** sell your shares and take the 15% loss to preserve your capital.

Now that we got some basic vocabulary out of the way, let's find out what day trading penny stocks is really all about.

Day trading penny stocks is simply buying and selling shares of a penny stock on the same day.

Now, why in the world would you want to do that?

**Because that is how you can REAP the MOST PROFIT in the SHORTEST AMOUNT OF TIME.**

Here's an example.

Penny stock ABC is trading at \$0.05 cents/share. That means each share is worth 5 cents.

You buy 10,000 shares of ABC. That means you spent \$500 ( $0.05 * 10,000$ ).

Penny stock ABC rises to \$0.08 cents/share.

You sell 10,000 shares of ABC at \$0.08 cents/share.

That \$500 dollars you invested in has turned to \$800 (you sold 10,000 shares at the price of 0.08 so  $0.08 * 10,000 = \$800$ ).

\$500 -> \$800 IN ONE DAY! That's a 60% gain. You WILL NOT see 60% gains in ONE DAY with stocks trading at the NASDAQ OR NYSE. **ONLY PENNY STOCKS display this kind of rapid growth.**

Historically speaking, long term investing in the stock market yields an average of 10% A YEAR.

**With day trading penny stocks, you can get 10% A DAY.**

We've all seen the example of compounding 10% a year and becoming a millionaire in 60 or so years. What would happen if you compounded 10% A DAY? Would it take as long? You don't need a math degree to figure that one out. The results are jaw dropping!

So here is day trading penny stocks in a nutshell.

1. Do research (dd) and come up with a list of stocks that you would consider day trading for that day.
2. Gauging how the market reacts, pick one stock accordingly.
3. Enter a LIMIT ALL OR NONE buy order through your online broker.
4. Buy the shares.
5. Sell the shares when you reach your profit percentage gain.
6. Get on with the rest of your day.

7. Repeat steps 1-6 daily and go on a well deserved vacation with the money earned.

Questions that may arise are:

How do I research?

What am I looking for?

How can I identify which stocks will go up?

Which stocks do I buy?

When do I buy?

When do I sell?

How much money should I use?

Fear not, all of these questions will be answered throughout this eBook, but first you've got to get started.

## Chapter 2: Getting Started

When you undertake a big endeavor, you want the best of the best. You want to make sure you have all the tools necessary to get the job done. You wouldn't start building a house without the proper tools would you? The same thing applies to day trading.

Here is what you need to get started:

1. A reliable and fast computer (at least 256 MB of RAM, at least a 1.2 GHZ processor, and a network/wireless card for Internet connectivity)
2. Fast Internet connection – ex: DSL/Cable/T1/T3/Wireless
3. MicrocapFeed – powerful trading software with real-time data
4. In-depth knowledge of this eBook
5. One month of paper trading experience

### **1. A reliable and fast computer**

You need a fast computer in order to execute trades online. Time is of the essence when it comes to day trading. You don't want to be stuck with a slow computer. You also want a reliable computer. You don't want to put in an order only to have your computer freeze, then have to restart your computer and log back on again. You need a reliable and fast computer to protect your investments.

### **2. Fast Internet connection**

The same logic applies to your internet connection. You do NOT want dial-up for day trading penny stocks. Speed is of the essence. If you were to use a 56k modem, you would see connecting.....loading.....and that would take several seconds. You might have missed the trip by then. It's better to have trades executed instantaneously. DSL is more than enough and is pretty cheap. It runs about 20 dollars a month and is a really good investment.

### **3. MicrocapFeed – powerful trading software with real-time data**

You absolutely need MicrocapFeed in order to day trade penny stocks. MicrocapFeed is a real-time data feed application and is THE TOOL that will give you THE EDGE you need to profit from day trade penny stocks.

It has everything you need in real-time. Free stock quotes online are delayed 15 minutes, which is an eternity in day trading. MicrocapFeed also has sales times and quantities and Level II, so you get more inside

information on what's happening. They also have powerful real-time scans and filters which are extremely useful.

MicrocapFeed is explored in-depth later on in this eBook. **Through a special deal with MicrocapTrade (the company that offers MicrocapFeed), a monthly \$20.00 discount is given to buyers of this eBook!** The link that provides the discount is given at the end of Chapter 6 (chapter dealing with MicrocapFeed).

#### **4. In-depth knowledge of this eBook**

Study this eBook thoroughly, watch for the traps, know when to buy and sell, lock in your profits etc, apply them, and you will be more equipped and knowledgeable than 99.9% of the newbies out there. Do not attempt to start making money without reading this eBook from start to finish.

#### **5. Paper trading**

Even after reading this book and understanding it, you have to APPLY IT. If you start with real money without any practice, you will LOSE it out of emotion. It's better to "paper trade", meaning use fake money to get a feel for your skills. Take some time to apply the rules in the book to see how well you fare paper trading. Do this for a month and record your results. This will give you the essential confidence you need when you start day trading. More on paper trading is given later on in this eBook.

But wait, don't I need an online broker account with cash so I can buy and sell shares? Yes you do, but when you're getting started, it's better to paper trade. Once you're done with that, yes go setup an online broker account. There are many out there such as E-trade, Scottrade, etc. Preferably, I choose Scottrade. They are very orderly, have nice customer service, and are very reliable when executing trades and their prices can't be beat.

Now that we're all set, let's go to day trading school and figure out what the heck drives penny stocks up.

## Chapter 3: What Drives Penny Stocks Up

Class is now in session.

Let's start off with a quick lesson on economics. When you hear the word economics, what do you think of?

Demand and supply.

Demand and supply. That's all we need to look at when it comes to day trading penny stocks. We want to maximize both factors in our favor. In other words, **we want HIGH DEMAND and LOW SUPPLY.**

If we find that combo, we are **SURE TO FIND AN INCREASE IN PRICE.**

Let's first look at the demand side and figure out how HIGH DEMAND is created.

**HIGH DEMAND = GOOD NEWS + HIGH VOLUME**

Nothing else matters. Not how much cash the company has, how many employees, what the CEO gets paid, etc. Remember, you're buying stock at 9:35 AM and selling at 10:04 AM. In other words, day trading. You don't need to do HUGE amounts of analysis. You're just riding the demand wave and taking profits from it.

Let's look at news first. News provides the fuel that drives penny stocks up. A perfect example of this is GLIF.



Chart courtesy of [StockCharts.com](http://StockCharts.com)

Look what happened on September 22, 2005. Yup. A HUGE JUMP IN PRICE. Almost a 1000% INCREASE!!! If you had invested \$500, you would have turned that into \$5,000 in ONE DAY! What caused this huge jump?

**Important Note:** For the benefit of the reader, I wanted to include the full text of all press releases (PR) in this eBook. However, due to numerous copyright issues from various news wire organizations, I was not able to include the full text of all PRs. Instead, I inserted a link to the PR, but be warned that these links will expire in time.

Reading press releases and getting a “feel” of the content is VERY important. Fear not! You will have plenty of time to read numerous press releases during your paper trading period. More on that will be covered later on in the eBook.

[Grant Life Sciences Awarded Patent for Vital Components of Blood-Based Cervical Cancer Test](#)

That my friends, is the power of news.

The next question is, what kind of news? Will any news cut it? Will a press release about a company with a 10% increase in revenue cut it? No, of course not.

The underlying principle in determining whether or not the news is good enough to shoot a stock up is to use the "WOW" test. After reading the PR, is it enough to make you say "WOW"?

Here are some types of news to look out for.

### **1. Affiliation with a big company**

If a major corporation is doing business with a penny stock company, that speaks volume of the penny stock company. Big businesses are very careful who they do business with. They only do business with companies that are serious and get the job done. By affiliating themselves with a penny stock company, they are sending out the message that this penny stock company has what it takes. You'll see a perfect example of this with GZFX later on in this chapter.

### **2. New patent**

If a penny stock company has rights to a new patent, that is really good news. What that means is that the penny stock company basically has a monopoly on the product/service that they got the patent for. It's indicative of high future revenue numbers. A perfect example of this was just given – GLIF.

### **3. Great quarterly financial numbers**

Every year, penny stock companies release their quarterly numbers. Some of them have really great numbers. This can be due to a number of reasons such as greater number of contracts, royalty fees, higher demand for products/services, etc. Bottom line, the numbers speak for themselves. This will usually result in a rapid increase of price to reflect the current quarterly numbers of the companies. An example of this is given later on in the chapter. You will see an example of this with ATSI.

### **4. Escape from bankruptcy**

When a penny stock company announces that it has filed for bankruptcy, the stock price goes down drastically. Panic selling ensues. The price is at an all time low. Then, if a company releases a PR drawing up a detailed plan of escaping bankruptcy, you've got a basement floor bargain

here. Prices are at an all time low, and the company has a plan that to get out of bankruptcy. Investors come in and buy again, driving the price back up. You can get a piece of that action. Notice though that a plan in it of itself is enough psychological leverage to get investors to buy and drive the price back up. It's all about investor psychology.

## **5. Reverse merger**

A reverse merger is basically money in the bank. 9/10, the price will go up. Some of the companies in the penny stock market are "shell" companies. They serve no purpose except to function as a way for private companies to go public.

The traditional way for a private company to go public is to issue an IPO (initial public offering). This can be very costly and time consuming. To get around that, the "shell" company offers its shares to the private company to buy it out. The private company, by taking those shares, owns the majority of the "shell" company's stock. This results in a transfer of ownership from the "shell" company to the private company. The private company then becomes a publicly traded company.

The reason why there is pretty much a guarantee of an increase in price is because the "shell" company did not have any assets and was not generating any revenue. The private company, no doubt, has assets and is generating revenue. With a reverse merger, the "shell" company literally has revenue and assets overnight. The price of the stock should reflect the acquisition of these new assets and revenues, and it does so by increasing the price or value of the penny stock.

## **6. Insider buying**

Whenever employees start buying shares of their company, that's a very good sign. Nobody else knows what is exactly going on inside the company except the employees themselves. If the employees are willing to put down their money to buy shares, you can expect that they know something good is coming up that will give them a return on their investment.

## **7. Going to more prestigious exchange such as the NASDAQ, or NYSE, or AMEX.**

If a penny stock company announces that it is leaving the OTCBB or the Pink Sheets to go trade on a more "prestigious" market, that's a good sign. Markets like the NASDAQ, NYSE, AMEX have strict requirements that must be met before they can be traded. These serve to weed out the men from the boys. If a penny stock company has met all the requirements to trade on a more "prestigious" market, then they are

invited to play in the major leagues. By meeting those requirements, they send a positive signal about the advancement of their company.

## **8. Buyback of shares**

If a company announces that it's going to buyback its shares, then that effectively reduces the number of shares to be traded. It also signals that the company has the cash to do so. That's a healthy sign. When the number of shares are reduced, that limits the supply, thus making an increase in price more likely to occur.

## **9. Winning of big contracts**

If a company announces that it has won multi-million dollar contracts, that effectively means that their revenues have increased by that much. Even though the service has not been rendered, it's investor psychology that the company has a lot more revenue now. The stock price must reflect it, so it goes up.

## **10. Doing business internationally**

When a company starts doing business internationally, it signals that it has the resources and capabilities to do so. It also signals the start of an even greater customer base, which leads to even greater potential revenue. All good things in the eyes of the trader.

To sum up identifying good news, use the WOW factor. IF the news doesn't make you say "WOW", it's not worth it.

Here is another example.



Chart courtesy of [StockCharts.com](http://StockCharts.com)

What was the news that made it shoot up on September 14th?

[ATSI Revenue Up 379 Percent](#)

And another example.



Chart courtesy of [StockCharts.com](http://StockCharts.com)

What happened on October 5<sup>th</sup> that made the stock price soar more than 400%?

### [Circuit City to Offer GameZnFlix's Online Video Game and DVD Rental Program](#)

Closely correlated with good news and bearing the other half of the equation to high demand is VOLUME. If you look at those charts again, you'll see the volume SKYROCKETED the day of the news.

For those of you who aren't savvy with investor terms, volume is simply an indicator of the amount of shares being bought and sold. High volume can go either way. It can mean a ton of people are SELLING and in turn having the price DROP, or a ton of people BUYING, moving the price UP.

The logic behind looking at volume is simply this. If all of a sudden, out of the blue, a stock begins showing high amounts of volume, in particular people buying, then something must be up. People are buying for a reason, a GOOD reason. Join them and ride the wave.

Sometimes, volume in of itself is so powerful that it alone can create high demand.

Here is a perfect example, SWKJ.



Chart courtesy of [StockCharts.com](http://StockCharts.com)

Take a look at September 12, 2005. About 35 million shares traded. Looking at the range of volume, you can see that the average volume on a given day was about 5 million. On September 12, SWKJ was showing 7 TIMES the average daily volume. Something was up. See what happened? It went from about 0.025 to almost 0.06. That is a 240% INCREASE! There was no news release on that date. The stock just skyrocketed on VOLUME ALONE.

Another reason why volume is good for day trading is because it provides liquidity. That means it's easier to buy and sell your shares because there are so many people involved in this stock. The more traders there are of a stock, the more volume there is. This results in a snowball effect because all of a sudden, traders see abnormal volume on a stock, come over to check it out, and then join in on the fun. Your job is to make sure you get in there early.

Another example to prove my point.



Chart courtesy of [StockCharts.com](http://StockCharts.com)

**As you have seen in the examples, its ABSOLUTELY CRITICAL you have access to news of penny stocks and volume alerts.**

What I mean by volume alerts is filtering ALL the penny stocks to see which stocks are showing unusually high volume.

Wouldn't it be great if there was an application that showed you real time penny stock news and volume scans?

Well there is, and you guessed it, its MicrocapFeed!

Now you're beginning to see why it's so valuable, but it has tons more to offer as you will see later on.

Thus, we fulfilled HIGH DEMAND. We then have to fulfill low supply.

**WE MUST TAKE SUPPLY INTO ACCOUNT. Even if there is high demand, a high supply will just neutralize the increase in price.**

**LOW SUPPLY = LOW FLOAT + RSI LEVEL BELOW 50**

What the heck is a float? Float is simply the number of shares that are available for trading. There are outstanding shares which are the total number of shares, and then there is the float, which is the number of shares that are actually allowed to be traded. You want to buy stock with a low float. Anything under 30 million shares is considered to be a low float for a penny stock, but there are exceptions.

Here's an example of a stock with good news but a high supply, meaning a high float.



Chart courtesy of [StockCharts.com](http://StockCharts.com)

On October 3<sup>rd</sup>, ONEV released a press release saying that they've teamed up with Dell, one of the top leading PC manufacturers. Affiliation with a big company like that is sure to turn heads (remember GZFX and the news with affiliation of Circuit City) and the volume poured in. About 14 million poured in. But let's look at the float.

The float for ONEV according to [otcbb.com](http://otcbb.com) is 311,136,312 shares as of 8/11/2005. Only a fraction of the float was traded. Once the price didn't go up, traders wondered why, discovered the huge float, realized that there were too many outstanding shares, sold their shares, and as a result the price tanked.

But some of you may be wondering about GZFX. The float for GZFX is about 925,001,665 as of 06/30/2005. About 3 times as much as ONEV. Why did it show such tremendous gains? Let's look at the chart for GZFX again.



Chart courtesy of [StockCharts.com](http://StockCharts.com)

Look at the volume traded on the day of the huge spike. Almost the entire float got traded! That's the key in determining the whether a stock has a low float or not. It's all relative. A stock may have a huge float like GZFX, but if the demand is high enough that the entire float gets traded, it's safe to say it's a "low float" stock, relatively speaking.

The second factor is the RSI. RSI stands for relative strength index and is a momentum indicator that tells traders how oversold/overbought the stock is. That's the cool thing about day trading penny stocks. You just need to rely on one technical indicator. You don't have to worry about all those other confusing indicators. The more oversold, the lower the RSI would be, the more day traders like. A RSI of about 20 is considered to be extremely oversold. As day traders, we like it when the RSI is at 20. Most stocks bounce up at that level. A RSI of about 80 would be considered overbought. Most stock prices go down after reaching that level.

Let's look back at those previous stock examples. Pay close attention to the RSI levels at the beginning of the spike and at the end and you'll see what I'm talking about.



Chart courtesy of [StockCharts.com](http://StockCharts.com)

You can see a correlation between the RSI level and the price. As the price rises, the RSI levels rise as well. When the stock price shot up, the RSI level was around 40 and shot up to 65.



Chart courtesy of [StockCharts.com](http://StockCharts.com)

This is a more drastic example. Before the spike, the RSI level was nearly at 20, which is very good for us day traders. We like that. Look how far it spiked up, to 80. NEVER BUY when the RSI is that high. Look what happens. The price falls. That's why it's SO IMPORTANT to take into account the supply side of the equation.



Chart courtesy of [StockCharts.com](http://StockCharts.com)

You can analyze this one yourself.

If you have high demand, but a high float and a RSI of 80, the price isn't going to rise that high and you will get burned.

**REMEMBER, MAXIMIZE BOTH DEMAND AND SUPPLY.**

**YOU WANT HIGH DEMAND AND LOW SUPPLY.**

**HIGH DEMAND = GOOD NEWS + VOLUME**

**LOW SUPPLY = LOW FLOAT + RSI BELOW 50**

# Chapter 4: Watch Out For These Traps

There are many traps when it comes to day trading penny stocks.

Here's a list of the most common ones that newbies fall into and lose money on:

1. The Dreaded S-8 Filing
2. Message Boards
3. Stock Promoting Emails
4. Group Runs
5. NRO (News Release Overdose)
6. So-So News

## 1. The Dreaded S-8 Filing

What the heck is an S-8? Basically, it's a piece of paper filed by the company to the SEC telling them that they just increased the number of shares in the stock. Remember what we said about supply? You want low supply. **S-8's increase the number of shares in the float. You DO NOT Want that.** Investors stay away from that. I learned this the hard way. A company released really good news and I bought expecting it to go upward. It didn't go up that much at all. The reason? The company filed an S-8 the day before. Investors who have done their dd (due diligence, aka research) saw that and didn't bother investing. As a result, other traders did not buy and I had to sell at a loss.

## 2. Message Boards

Message boards are full of pumpers and bashers. What are pumpers? Pumpers are people who have bought a stock and want other people to buy so the price will go up. They convince other people to buy the stock by posting "evidence" to drive the price up. Once they convinced enough people to buy and drive the price up, they sell and leave those people hanging. Do NOT leave your fate in other people's hands. These pumpers can be very convincing and are often knowledgeable about technical indicators and fundamentals that sound very persuasive and convincing. Don't fall for it. I fell for it. Stick to your own guns. Do not let them influence you. You may think that you can't be influenced, but they are very good.

Then there are bashers who make you think the stock you picked sucks so they want you to sell. Don't listen to them. Message

boards cloud your thinking and make you behave illogically and irrationally. Stay AWAY. Leave them be.

### **3. Stock Promoting Emails/Faxes**

You may get an email or fax saying that some stock is going to skyrocket 1000% in the next 2 weeks. It's groundbreaking. It's innovative. It's going to make a ton of money. Guess what? No it's not. And even if it does, who cares? You're a day trader, not a long term holder. You get in and out within a day. Not several days, weeks, or months. These types of emails and faxes are just another form of pumping. Press DELETE or shred the fax. Pay no heed to these.

### **4. Group Runs**

This is VERY TRICKY. Group runs are where organized groups of traders buy up shares of a stock that typically has low volume. When they buy large amounts of shares, this acts like a homing signal. This attracts other traders like bees to honey. Soon other people see abnormally large volume on this stock and get in on it thinking that something big is going to happen. But it's a trap. When other people start to buy, the group starts to "sell into the buying pressure", meaning that when the price rises, they start to sell and take their profit. The trader who buys at the highest buying point is "caught holding the bag". Basically, he/she is screwed. These can be very fun to play, but very risky. This requires lots of experience. You can choose to invest in these but make sure to get out QUICK. Don't be the last one caught holding the bag.

### **5. NRO (news release overdose)**

There are some companies who "talk a lot". They issue press releases everyday informing the public of what they did on that day and sometimes issue the same press release in different words. It's ridiculous. The more press releases that come out of a company, the less meaning each successive one has. It basically devalues their press releases. Companies that release PRs whenever *significant developments* occur are the ones you should be looking for. So if you see good news pop up, make sure to check the company's recent news releases. Sometimes you'll find that the PR you're looking at is just a rewording of a previous PR, such as yesterdays. Experienced traders stay away from those companies and you should too.

## **6. So-So News**

News is the catalyst of day trading. If the news you pick isn't that great, your returns won't be that great either. Make sure the news is good. If it doesn't make you go "WOW", it's not a cash cow. As you paper trade, you'll get a feel for what constitutes "WOW" news and what constitutes "so-so" news.

## Chapter 5: The Power of Trends

There are some stocks that comprise of a certain part of the sector that show more than 100% gains in the course of a day or a couple of days. These are what I call "trend stocks". That's because they follow the current trend.

How is it that these stocks gain so much and how can we identify them?

The way trend stocks works is this. Usually, news or events start circulating that are BIG. What happens then is that experienced traders start to make a "watch list". They include all penny stocks that are associated with that trend. When one of those penny stocks releases a PR based on the current trend, the traders converge on it and buy it up like crazy, driving the price up. This in turn creates a massive snowball effect. Other traders see this and make start making the connections and start watching these trend stocks more closely. As soon as another company releases a PR associated with the current trend, the same thing happens.

Let's consider some examples.

Around March and April of 2005, there were a number of news stories about E-bay drop off stores. In these news stories, they stressed that **this type of industry has the potential to generate billions of dollars of revenue a year.**

The seed was planted.

Traders kept a watchful eye of any penny stocks that released PRs associated with this E-bay drop off store trend. Among them were 2 penny stocks, AMRE and SNPD. Here are their one year charts for 2005. See if you can find out when those PRs associated with E-bay drop off stores were released. It shouldn't be too hard to find.

**AmeriResource Technologies Inc. (AMRE) BB** © StockCharts.com



**Snap N Sold Corp. (SNPD) PINK** © StockCharts.com



Charts courtesy of [StockCharts.com](http://StockCharts.com)

As you can see, both experienced more than 1,000% gains in less than a week during the middle/end of May. That's because both companies released PRs stating that they were going into the E-bay drop off store business. The press release for AMRE is linked below.

[AmeriResource Subsidiary Net2Auction, Inc. Begins Trading -- Stock Symbol 'NAUC'](#)

The press release for SNPD is no longer available online, but the content of the press release indicated that RAPT (the symbol it was trading at that time) would enter the E-bay drop off store business and stressed that this industry had billions of dollars in potential.

This is a perfect example of investor psychology. Just the announcement of entering an industry with a potential of \$30,000,000,000 annually is enough to shoot the stock price up.

Here's another example of a trend: Around the month of October 2005, worldwide exposure was given to the Avian Bird Flu. This was a serious threat to the health of millions around the world. Naturally, demand was extremely high for any companies that could help deal with the threat. Among them were the following penny stocks:

NNVC, MCET, AMAR, EMFP, and LWLL.

Let's see what their charts have looked like around the time of October 2005.



Chart courtesy of [StockCharts.com](http://StockCharts.com)

10/3/2005

[NanoViricides, Inc. to Tackle Asian Bird Flu](#)

10/12/2005

[NanoViricides Featured in NanoBiotech News Special Report on Avian Flu](#)

10/31/2005

[NanoViricides Has Begun Preclinical Studies For Their First Anti-Viral Drug Targeted Against Bird Flu](#)

**MultiCell Technologies, Inc. (MCET) BB** © StockCharts.com



**Amarillo Biosciences (AMAR) BB** © StockCharts.com



Charts courtesy of [StockCharts.com](http://StockCharts.com)

**Emergency Filtration Products Inc. (EMFP) BB** © StockCharts.com



**Linkwell Corp. (LWLL) BB** © StockCharts.com



Chart courtesy of [StockCharts.com](http://StockCharts.com)

If you do your DD and research the past press releases that have been released by these companies during their explosive growth period, you will find that all refer to helping deal with the Avian Bird Flu, the current trend at that time.

**MCET**

**10/21/2005**

[MultiCell Immunotherapeutics Data Demonstrates Potential to Prevent Avian Flu](#)

**AMAR**

**10/20/2005**

[Amarillo Biosciences Licenses Low Dose Oral Interferon to Global Kinetics for Sale in Three Countries in SE Asia](#)

**EMFP**

**10/10/2005**

[Emergency Filtration Products To Increase Production of NanoMask to Meet Growing Demand Caused by Avian Flu Threat](#)

All of these stocks have experienced AT LEAST 100% growth. NNVC as much as 400%. Imagine doubling your money, tripling it, quadrupling it! This is how you do it.

Such is the power of trends. Such is the power of the knowledge and awareness of trends.

Here is one last example that demonstrates the power of trends.

Hurricane Katrina devastated the United States in 2005. News coverage of it was worldwide. Companies that could help rebuild the U.S were in great demand. Among them were EPYH and ZENX. Let's see how they did.

**Empyrean Holdings, Inc. (EPYH) BB** © StockCharts.com



**Zenex Intl Inc (ZENX) BB** © StockCharts.com



Chart courtesy of [StockCharts.com](http://StockCharts.com)

Both showed gains of well over 200% during the time of the trend PR release!! If you do your research and check what press releases these companies have given regarding the hurricane, you'll see why.

**EPYH**

**9/23/2005**

[Empyrean Holdings Inc. Attacks \\$25 Billion Hurricane Katrina Cleanup: Financial News - Yahoo! Finance](#)

**ZENX**

**9/07/2005**

[Aduddell Roofing Signs Temporary Roofing Contract with U.S. Army Corp of Engineers in Response to Hurricane Katrina](#)

**ZENX**

**9/20/2005**

[Hurricane Katrina: U.S. Army Corps of Engineers Increases Aduddell Contract to \\$60,000,000.00](#)

Take a look at all those stocks and see their tremendous gains. This is where you can potentially double your money. Why are these trends so successful?

For starters, these trends have high exposure. This kind of stuff is all over the news. Usually, since this kind of news has such high exposure, there must be some form of demand in them. For example, Hurricane Katrina had high demands for construction, reconstruction, etc. The bird flu had high demand for companies researching vaccines.

The only question is how can you spot this trend and ride the wave?

You HAVE to know what's going on in the world. Spend at least 30 minutes a day keeping up with events around the world. See if there is any news stories that come out saying some sector will be "hot" and generate billions of dollars a revenue like the E-bay drop of store trend. That's what sparked that insane increase in price.

**YOU NEED TO BE ON THE LOOKOUT FOR ANY PR THAT IS RELEASED THAT IS SOMEHOW AFFILIATED WITH THE CURRENT TREND.** If the company that released the PR shows huge demand, the price going up, and insane volume, you hit the jackpot. Add that stock to your trend watch list. When other PRs come out from other companies, get ready to make a ton of money.

These trends unfortunately don't come every day. They're more like once a month or once every two months, depending on what's going on in the world.

Make a list of all the stocks associated with the trend, order them in terms of low supply and see which one of the low supplies starts taking off. This will without a doubt be due to a PR that was released, which is linked to the current trend. If you see the PR, read it, and see it taking off, then just join the wave and ride to profit.

**Bottom line:** Be aware of possible trends, look for any stocks associated with that trend (by PR release), if those stocks show heavy buying, join in and ride the wave to profit. If you are reading PRs in the morning and come across one that is associated with the current trend, watch it like a hawk. If it shows signs of life, which it probably will, you're pretty much good to go.

## Chapter 6: The Best Tool

First off, I want to clarify the difference between MicrocapTrade and MicrocapFeed.

MicrocapTrade is the company offering MicrocapFeed, which is the software needed in order to day trade penny stocks.

“MicrocapTrade is the leading online OTC tools provider of OTC:BB penny stock quotes, scan tools, and penny stock market trading broker research reporting information. MicrocapTrade offers Over the Counter Bulletin Board trading analysis and OTC scan tools of individual penny stock market trading (micro cap stock). Online OTC tool: penny stock trading, broker research, analysis.” – <http://www.microcaptrade.com>

What does that mean? Anything that has to do with penny stocks, MicrocapTrade is the way to go. It has ALL the tools that are ESSENTIAL to day trading penny stocks. You wouldn't go to war with inferior weapons and armor would you? You want the best of the best. MicrocapTrade is just that. The best of the best. They offer MicrocapFeed, the best software used for trading penny stocks.

The following pages will display the features MicrocapFeed offers.

1. **Top 400** - A list of the top performing 400 penny stocks in real time. The Top 400 also has yesterday's data as well.

Top 400 : Entire OTCBB/Pinks

MICROCAP TRADE  
OTC:BB / Pinksheet Trading

Select Market View: **Today** Previous Day

OTC:BB PINKS COMBINED

Symbol: Data for: 2006-01-03 (real-time) OTC:BB/Pinksheet Settings

	Time	News	Symbol	Bid	Ask	Spread	Last	Net	% Chg	Trades	Volume	\$ Volume	Reclimb
1	15:59:45		UALAQ	1.1200	1.1300	0.88 %	1.1200	0.1750	18.52	2049	5,482,621	\$ 5,987,144	70.00 %
2	15:59:25		GBYS	1.8750	1.8800	0.27 %	1.8800	0.2100	12.57	1488	4,111,473	\$ 7,355,345	100.00 %
3	15:59:56		PGDP	2.3500	2.3600	0.42 %	2.3500	0.4000	20.51	1089	2,858,644	\$ 6,645,381	53.33 %
4	15:59:41		GZFX	0.0139	0.0140	0.71 %	0.0139	0.0009	6.92	898	101,712,310	\$ 1,385,815	62.50 %
5	15:59:55		CPNLQ	0.2045	0.2070	1.21 %	0.2070	-0.0010	-0.48	816	7,797,903	\$ 1,567,914	75.00 %
6	15:59:36		CWPC	2.5300	2.5400	0.39 %	2.5400	0.1700	7.17	815	1,614,487	\$ 3,949,180	81.25 %
7	15:59:53		DALRQ	0.7800	0.7950	1.89 %	0.7800	0.0300	4.00	680	2,950,728	\$ 2,353,824	20.00 %
8	15:59:58		XSNX	0.6500	0.6500	0.00 %	0.6500	0.0700	12.07	678	2,684,599	\$ 1,636,887	93.33 %
9	15:59:06		MIOK	1.6800	1.6900	0.59 %	1.6900	0.3400	25.19	665	1,336,724	\$ 2,012,382	100.00 %
10	15:59:31		SVXP	0.0017	0.0018	5.56 %	0.0018	-0.0004	-8.00	566	258,014,675	\$ 433,327	41.67 %
11	15:59:33		PLNI	0.0058	0.0059	1.69 %	0.0058	0.0014	31.82	497	131,360,559	\$ 682,637	92.31 %
12	15:59:27		GTXE	3.0200	3.0400	0.66 %	3.0200	0.2600	9.42	487	706,613	\$ 2,109,676	50.00 %
13	15:59:42		DPHIQ	0.3240	0.3248	0.25 %	0.3248	0.0338	11.62	461	3,231,305	\$ 1,011,004	99.05 %
14	15:57:38		CYGX	1.0600	1.0700	0.93 %	1.0600	-0.0000	-0.00	449	1,066,137	\$ 1,165,275	14.29 %
15	15:59:49		HLSH	4.8000	4.8500	1.03 %	4.8500	-0.0500	-0.82	447	4,327,798	\$ 20,898,539	50.00 %
16	15:55:15		FLYIQ	0.0090	0.0110	18.18 %	0.0090	-0.0100	-8.00	427	10,018,078	\$ 135,771	20.00 %
17	15:59:26		IHSN	0.0008	0.0009	11.11 %	0.0009	0.0003	58.00	397	294,129,763	\$ 293,883	28.57 %
18	15:58:21		UBTA	0.1200	0.1300	7.69 %	0.1300	0.0450	52.94	367	3,131,259	\$ 375,683	55.56 %
19	15:58:20		QBID	0.0002	0.0003	33.33 %	0.0002	0.0	0.0	353	1,055,126,532	\$ 232,849	0.00 %
20	15:58:09		IMDS	0.1700	0.1770	3.95 %	0.1700	0.0200	13.33	350	2,654,653	\$ 470,258	40.00 %
21	15:59:45		MIRKQ	1.4300	1.4400	0.69 %	1.4400	0.1200	9.09	343	1,548,388	\$ 2,096,708	81.25 %
22	15:59:51		KEGS	13.7500	13.7700	0.15 %	13.8000	0.3300	2.45	330	920,668	\$ 12,592,536	87.18 %
23	15:55:57		IPXL	9.9500	9.9600	0.10 %	9.9800	-0.7200	-0.93	310	502,731	\$ 5,031,633	14.77 %
24	15:59:16		SNYL	2.0000	2.0700	3.38 %	2.0700	0.0800	4.02	309	410,737	\$ 846,931	52.94 %
25	15:58:54		KDSM	3.4500	3.4700	0.58 %	3.4450	0.0950	2.84	305	811,966	\$ 2,677,786	95.45 %
26	15:59:33		COGL	3.1000	3.1500	1.59 %	3.1500	0.7500	31.25	295	288,577	\$ 835,066	66.67 %
27	15:59:21		OWENQ	2.7500	2.7700	0.72 %	2.7700	-0.2300	-0.67	280	497,633	\$ 1,409,300	17.86 %
28	15:54:09		PCFG	0.3100	0.3200	3.12 %	0.3100	0.0150	5.08	276	2,029,133	\$ 631,165	34.78 %
29	15:52:41		BSKO	1.7400	1.7500	0.57 %	1.7500	0.0200	1.16	267	872,215	\$ 1,569,308	10.00 %
30	15:59:05		BBSE	1.7700	1.7800	0.56 %	1.7800	0.1300	7.88	263	546,550	\$ 927,904	100.00 %
31	15:59:57		NWACQ	0.5400	0.5500	1.82 %	0.5400	0.0	0.0	263	1,427,937	\$ 787,772	9.26 %
32	15:59:33		DKDY	1.8300	1.8500	1.08 %	1.8300	-0.0400	-0.53	258	234,240	\$ 462,643	6.12 %
33	15:58:26		BTYH	1.8500	1.8600	0.54 %	1.8600	0.3600	24.00	254	300,081	\$ 534,702	59.09 %
34	15:59:42		RBSY	1.0400	1.0700	2.80 %	1.0700	0.0900	9.18	252	863,224	\$ 886,067	100.00 %
35	15:59:55		FLIP	0.0395	0.0400	1.25 %	0.0400	0.0100	33.33	251	6,576,134	\$ 257,165	58.33 %
36	15:59:57		DWOG	1.4500	1.4500	0.00 %	1.4500	0.1500	11.54	246	565,360	\$ 772,876	82.14 %
37	15:59:03		USGL	3.6200	3.6300	0.28 %	3.6300	0.1800	5.22	231	275,294	\$ 997,388	43.33 %
38	15:56:41		NMCX	0.0052	0.0053	1.89 %	0.0053	0.0002	3.92	227	57,048,144	\$ 316,135	30.00 %

Java Applet Window

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The Top 400 is an educational tool in it of itself. You can sort by companies that have released a PR today or yesterday. Then you

can see how well they did by looking at the percentage gain. Focus on those companies that have released a PR and have had high percentage gains compared to those who have released a PR and have had low percentage gains. By comparing and studying them, you'll soon develop your own radar for "WOW" PRs and "So-So" PRs. You can also sort by the number of trades that a company has had. This is extremely useful when the market opens because you have an idea of which stocks are being traded heavily and have the interest of traders.

You can also sort by percentage gain at the end of the day. This will go through every penny stock and show you the ones that have shown the greatest gains. Study them and figure out *why* they have shown such tremendous gains. Imagine where you would have bought and sold. Find out the catalyst for the huge percentage gain.

You can also sort by volume, so that you have a list of stocks right off the bat that are showing heavy volume when the market opens.

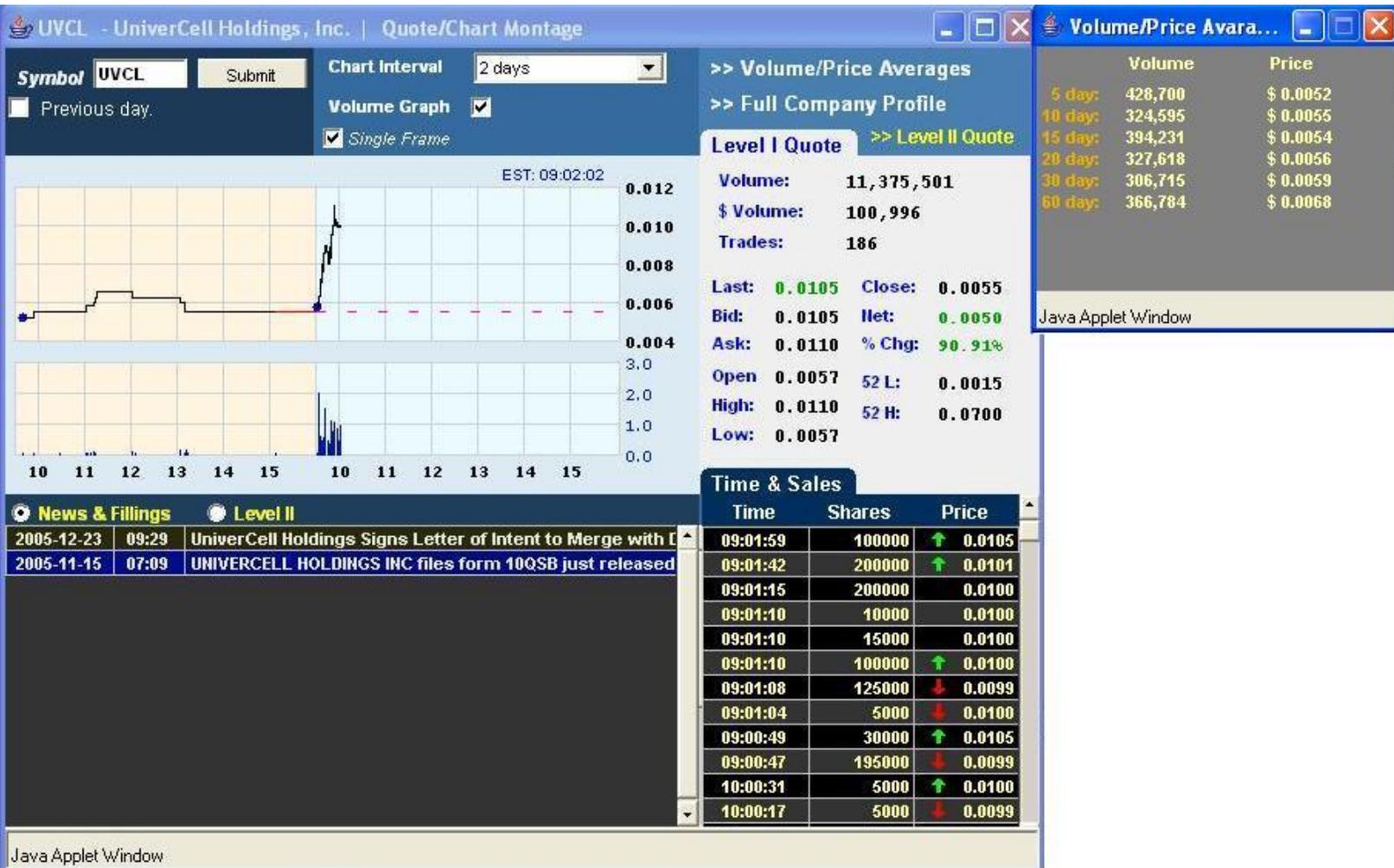
2. **Pre-market activity** – The Top 400 shows which stocks are trading BEFORE the market opens

If a stock is showing pre-market buying activity, chances are that something is going to happen. If the stock that is on your watch list for today happens to show evidence of pre-market trading, it's usually a good thing.

3. **Filters out "promotional" press releases**, which are just hype. You only see real news that can affect a company's trading activity.

This is good. You only want real PRs. MicrocapFeed cuts through all the bull so you're left with the good stuff.

#### 4. Chart/Quote Montage – has all the information you need



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\*Quick Note: As you can see, this stock has already gained 90% in an hour! You could've bought and sold a reaped a nice 40% gain in less than 30 minutes! Nowhere else in the world can you get these kinds of generous percentage gains in this kind of time.

Real Time Sales – shows you every trade that is made by showing the number of shares bought/sold and the time at which they were bought/sold.

Bid/Ask – shows you the price at which you can buy shares (asking price) and the price at which you can sell your shares (the bid price).

52 week high/low – this tells you what the highest and lowest price were during the course of 52 weeks.

Volume – shows how many shares are being traded. A very important indicator.

\$ Volume – tells you the total amount of money being used in trading for this stock.

Number of Trades – self explanatory

% change – you can see how much percentage gain/loss the stock is experiencing.

Close – shows at what price the stock closed the day before

Open – shows the price at which the stock opens (if there is a gap between the close and open, the stock is “gapping up”, usually indicative of high demand)

High - the highest price reached so far during the day

Low - the lowest price that has been reached so far during the day

Full Company Profile – you can check out what kind of company you're investing in by clicking on company profile.

News and Filings – a three month archive of all news and filings made by the company. Useful for determining NRO (news release overdose)

Time Interval Charting – you can see how many shares were traded at given interval of times during the day.

Volume Graphing – you can pull up a volume graph for the day, or for 2, 5, 10 days, 1,2, ,6 months and 1 year. This is EXTREMELY USEFUL because you can study the company's history in terms of volume and see how it reacts to large volumes. If there is a correlation between high volume and increases in price, that's good.

5. **News and Filings** – real time data feed of news and filings – the bread and butter of day trading penny stocks

**News & Filings Streamer**

**Filter:**  News & Filings  News  Filings

Price: from:  to:

Volume: from:  to:

Search  News  Filings by Ticker:  by Type:  by Date:

Time	Symbol	Last	Net	Volume	Headline
09:45:11	ITGJ	0.0002	0.00	3,360,333	InterAge Advances Web-Based Marketing Project for Major Online Gaming Company
09:43:53	YGDC	0.8000	0.00	0	YUKON GOLD CORP INC files form 3 (filed by Malhotra Rakesh)
09:33:07	MKBY	0.6300	-0.02	1,000	MCKENZIE BAY INTERNATIONAL LTD files form 4 (filed by BAKEMAN GREGORY)
09:30:04	MDTA	0.5200	0.00	0	Banyan Air Service, a Premier Fixed Based Operator, Contracts for PASSUR(R) Web-Based Flight
09:30:01	NMKT	0.3250	0.01	103,700	NewMarket Technology Inc. Releases Update of Homeland Security Strategy; New Year to Bring
09:29:11	UVCL	0.0081	0.00	5,461,279	UniverCell Holdings Signs Letter of Intent to Merge with Daytonabrands, Inc.
09:25:01	IGMC	0.0000	1.00	0	Ingenium Capital Corp. Enters Agreement to Participate in the Drilling of Barnett Shale and Fayetteville
09:15:32	CNCN	0.3100	0.00	2,900	Cintel Supplies PacketCruze TCDirector to POSDATA
09:15:32	CSNE	0.0000	0.00	0	Cintel Supplies PacketCruze TCDirector to POSDATA
09:11:21	VITC	0.0210	0.00	0	VERSATECH INC files form 10QSB
09:04:55	CKSB	15.6700	0.00	200	CLARKSTON FINANCIAL CORP files form 8-K
09:00:09	CBAG	2.5100	0.00	0	Arbitration Panel Holds Hearing on Clarification of Its Orders and Award in the Case of U.S. Energy
09:00:09	UBDE	3.0000	0.00	500	U.S. BioDefense Updates on Recent Response to Request for Manufacturing of TAMIFLU(R)
09:00:07	ZERO	0.8000	0.00	0	Save the World Air Appoints Joseph Helleis as Chairman
09:00:06	HIET	0.4600	0.06	106,000	Congress Appropriates \$1 Million for Stoichiometric Explosive Detection Systems

**UniverCell Holdings Signs Letter of Intent to Merge with Daytonabrands, Inc.**

MIAMI BEACH, Fla., Dec. 23, 2005 (PRIMEZONE) -- UniverCell Holdings, Inc. (OTCBB:UVCL) and Daytonabrands, Inc. announced today that they have entered into a Letter of Intent to merge.

Daytonabrands is a consumer and OEM products company focusing on the \$29 billion automotive aftermarket and accessories industry. The company's key management has significant consumer products experience coming from such respected companies as ArmorAll, ProTeam, ConAgra, Disney and Clorox.

Daytonabrands distributes products directly to the consumer via infomercial direct response television (DRTV) and national catalog publications such as

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You'll get all the press releases for every penny stock on the market in real-time. You can click on the headline and read the story in the same window. Not only that, you have the stock name so that when you click it, the chart/quote montage for that stock pops up.

On top of that, on the same news and filing screen, you get a percentage gain column and volume display so that you can see how the market is reacting to the news. You can also tell if the company is trading on the OTCBB or pink by the color of the stock name. You can also search the news by earnings, mergers, finance, S-8's, etc. A very, very useful tool.

6. **Trading Alerts** – Alerts you to which stocks are hitting the 52 week high/low, stocks that broke the 20 day average volume, stocks that broke the 20 day price, and block trades (an abnormally large cluster of shares that are bought – a very good sign)

Trading Alerts : Entire OTCBB/Pinks

Entire BB/Pink or  Watchlist(s)
 Today Prev

52W High/Low
  20 day Volume
  20 day Price
  Block Trade

Price: from:  to: 
 Volume: from:  to:

Data for: 2005-12-22 (real-time)

Time	News	Symbol	Volume	Subject
14:59:51		TRIG OTC	200	has just broken its 20-day Avg. Volume
14:59:51		TRIG OTC	400 ↑	has just traded above 20-day Price Avg.
14:59:48		TDFXQ OTC	7,988 ↑	has just traded above 20-day Price Avg.
14:59:39		PFTI OTCBB	7,400 ↑	has just traded above 20-day Price Avg.
14:59:37		GNPI OTCBB	420,165 ↓	block trade: 16000 @ \$2.01
14:59:34		APGO OTCBB	100,500 ↓	block trade: 10000 @ \$5.34
14:59:33	1	HISC OTC	6,328,853 ↓	block trade: 250000 @ \$0.049
14:59:28		ITWJ OTC	284,855 ↑	has just traded above 20-day Price Avg.
14:59:26		JAWZ OTC	1,800	has just broken its 20-day Avg. Volume
14:59:23		EVDR OTC	48,845 ↑	has just broken its 20-day Avg. Volume
14:59:22		IMGM OTCBB	126,250 ↓	IMGM hits 52 week Low of 0.025
14:59:19		GNPI OTCBB	403,665 ↓	block trade: 15000 @ \$2.01
14:59:13	1	LNBO OTCBB	63,850 ↓↓	LNBO keeps dropping to 0.25
14:59:12	1	URIX OTCBB	450,844 ↑	has just broken its 20-day Avg. Volume
14:59:11		UNBH OTCBB	226 ↓	has just broken its 20-day Avg. Volume
14:59:09		CCDE OTC	32,500 ↑	has just traded above 20-day Price Avg.
14:59:09		CHMG OTCBB	2,725 ↑	has just traded above 20-day Price Avg.
14:59:02		YUKR OTCBB	5,000 ↑	has just traded above 20-day Price Avg.
14:58:49		LTHU OTCBB	1,624,719 ↓	block trade: 750000 @ \$0.0488
14:58:48		ARKN OTCBB	23,571 ↑	has just broken its 20-day Avg. Volume
14:58:48		STDE OTCBB	5,000	has just traded above 20-day Price Avg.
14:58:45		BJGP OTC	124,975 ↑	block trade: 24000 @ \$3.5
14:58:43	1	LNBO OTCBB	39,850 ↓↓	LNBO keeps dropping to 0.26
14:58:37	1	LNBO OTCBB	34,850 ↓↓	LNBO keeps dropping to 0.3
14:58:33		GEEK OTCBB	42,774 ↑	has just traded above 20-day Price Avg.
14:58:28		CPNLQ OTC	100,000 ↑	block trade: 100000 @ \$0.25

Java Applet Window

These alerts are VERY useful because they flag abnormal behavior.

Take for instance, the alert of stocks that have broke the 20 day average volume. 20 days is an eternity in day trading. What the 20 day average volume indicates is the average number of shares that were traded in one day for 20 days.

So let's say for example, the 20 day average volume for ABCD was 20,000. On average, for 20 days, each day, the volume was 20,000. Now imagine you get the alert one minute after the opening bell. What that means is that in 1 MINUTE, the 20 day average volume was broken. 20,000 shares was the average volume on a GIVEN DAY. That's 7 full hours. If the 20 day average volume was broken in 1 minute, something is going on. It's a good signal alert.

The same logic applies to the 20 day price. Block trades are also a good sign. Block trades signify that someone is throwing some serious cash into buying huge blocks of shares and nobody spends a serious amount of money without expecting a nice return.

## 7. Streaming Filter - EXTREMELY POWERFUL TOOL

Streaming Filter

volume 9:30-10 Result

NEW SAVE CLEAR DELETE

Update:  Snapshot  Realtime

**Market:**  
 OTCBB  Pinks  Combined

**Timeframe:**  
 Today

**Price range**  
From: 0.0001 To: 1.00

**Trades range**  
From: 5 To: 150

**Last Price to High/Low Action**  
Last is within % of today's High

**Open Action**  
The Open is equal to Day High

**Change Action**  
The Gain is greater than 5 % relative to Open

**Volume Action**  
The Volume increase is greater than 20 % relative to 20-day ADV

**Trades Action**  
The Trades Increase is greater than 30 % relative to 20-day avg

**High/Low Action new**  
Today's High is within % of yesterday's High

**Gap Action**  
The --- is greater than % relative to Close

**Spread new**  
Spread is greater than %

**Volume range**  
From: To:

**\$ Volume range**  
From: To:

**Last Price to 52W High/Low Action**  
Last is within % of 52W High

**Last Action**  
The Last is within % of Open

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This is a very powerful tool. It sifts through ALL the penny stocks and spits back out the ones that you are looking for based on the criteria you enter. This way, you can get in on stocks that are about to explode.

Remember the examples of how volume alone can create high demand? With this streaming filter, you can get in EARLY on the action and ride the wave. You can literally filter through ALL the penny stocks and see which one is showing abnormal volume.

Then, with a click of the stock name, you can pull up the chart/quote montage to get more information.

Here is an example of a filter I use:

1. Price Range - 0.001 - 1.00
2. Trade Ranges from 5 – 150
3. Change Action - Gain Greater than 5% Relative to Open
4. Volume Action - Volume Increase is greater than 30% relative to 20 day average
5. Trades Action - Trade Increase greater than 30% relative to 20 day average.

What that filter basically translates to:

Look for stocks that have prices ranging from \$0.001 to \$1.00 per share, that have at least 5-150 trades so far, where it has gained 5% relative to the opening price (indicative of buying pressure), where the volume increase is greater than 30% relative to the 20 day average volume (signal of abnormal volume behavior), and where the trade increase is greater than 30% relative to the 20 day average (same logic as the volume).

This spits out a list of stocks meeting all of those criteria, which can potentially turn into very profitable trades.

I run this filter when the market opens. Therefore, if the volume increase is greater than 30% relative to the 20 day average, and it's only a couple minutes into the day, I know something big is up.

You can fiddle around with a number of other different criteria and create your own filters. You can test them out during your paper trading period.

8. **Personal Workspace** – keep track of your potential lists of stocks to invest in, trend stocks, etc.

The image shows two windows from the MicrocapTrade software interface. The top window is titled "Personal Watchlists" and displays a table of stock data for the date 2005-12-22 (real-time). The table includes columns for News, Symbol, Bid, Ask, Last, % Chg, Volume, \$ Volume, and Trades. The bottom window is titled "Personal Alerts" and displays a list of alerts with columns for Time, Symbol, and Subject.

**Personal Watchlists**

Symbol:  Add Watchlist: Select **today** New Delete Today Prev

Data for: 2005-12-22 (real-time) Settings

	News	Symbol	Bid	Ask	Last	% Chg	Volume	\$ Volume	Trades
1		QBID	0.0002	0.0003	0.0003	50.00	360,176,547	85,427	247
2	1	GMTH	0.0084	0.0090	0.0084	61.54	18,070,447	143,902	240
3	2	IESR	0.4100	0.4200	0.4200	44.83	5,300,427	1,851,695	486
4	2	CAMH	0.4600	0.4680	0.4800	50.00	4,097,042	1,811,716	478

Java Applet Window

**Personal Alerts**

52 H/L Breakouts  News  Filings

Time	Symbol	Subject
17:18:46	CAMH OTCBB	↑ CAMBRIDGE HEART INC files form 424B3
10:39:01	GMTH OTCBB	↑ Global Matrechs, Inc. Provides Business Update on HNIPU
02:02:23	IESR OTC	↓ Integrated Electrical Services Reports Fiscal 2005 Fourth Qu=2
09:14:54	IESR OTC	↓ /C O R R E C T I O N -- Integrated Electrical Services, Inc./
09:25:01	CAMH OTCBB	↑ CMS Proposes National Coverage Decision for Microvolt T-Wave Alternans for Patients at Risk of Sudden Cardiac De
17:18:46	CAMH OTCBB	↑ CAMBRIDGE HEART INC files form 424B3

Java Applet Window

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Here, you can create several watch lists. I have two at all times. One containing the stocks I think will do well for the day which I label "today" and another called "trend stocks" that contain all the stocks related to the current trend.

These watch lists contain the bid/ask, last price, net gain, % change, volume, \$ volume, and number of trades. You can go to any specific stock quote/montage by clicking the stock name. This way, you can keep track of multiple stocks at one time and see which one is getting a lot of attention.

To get a first hand look at MicrocapFeed, click the link below to sign up. The 1<sup>st</sup> month is FREE! After that, it's only \$79.95/month with the discount (regular price \$99.95/month).

[Click Here For The MicrocapFeed Discount](#)

If the link does not work, try launching your Internet browser FIRST, and then click on the discount link again. When you click the link, the browser you just opened should take you to the MicrocapFeed webpage.

# Chapter 7: The 10 Irrefutable Laws of Day Trading Penny Stocks

## 1. If the news doesn't make you say WOW, it's NOT a cash cow.

If you read a press release, and you have doubt in your mind whether or not it's going to turn out to be a good play, chances are it's not. The news has to be good enough to make you say "wow". It can be related to a current trend, it can say revenues increased 100%, it can say it has partnered up with a major corporation, etc. Press releases saying we increased revenues by 5% and cut costs by 3% isn't going to cut it.

**Remember, if the news doesn't make you say WOW, it's NOT a cash cow.**

## 2. YOU and YOU ALONE should make all your decisions independent of other people.

What happens when you start to listen to other people telling you to buy this stock is that you play into their hand. They have a reason for wanting you to buy this particular stock. Nobody is nice enough in this world to say, here, invest in this stock and you'll make money, all for free. Rule #1 in economics, there is no free lunch.

These people can be VERY convincing and hide behind the mask of the Internet in message boards, forums, and chat rooms. Make all your decisions by yourself. That way, you and you alone take full responsibility for your actions.

**YOU and YOU ALONE should make all your decisions independent of other people.**

## 3. Have a pre-set stop loss percentage

Chances are, if a stock is tanking, there IS a reason. Don't try to rationalize by saying it's going to go back up, because 9/10 times, it's not. Trust me. I know. That's how I learned all my mistakes. You might make some too, so set a stop loss percentage. For example, if I lose 10% of my original investment, I get out. Tomorrow is another day. Don't fume over it. Swallow your pride and accept the fact you made a mistake. Nobody's perfect. I make losses on some investments at times too. Just make sure you make more gains than losses and you'll be all right.

**Have a pre-set stop loss percentage.**

#### 4. Buy and Sell on The Same Day

Why? The majority of penny stocks only display huge spurts of growth in a single day. The day after, it doesn't seem to do that well. Buy and sell on the same day.

There is another reason as well. It helps keep your cash liquid. If you buy and sell stock on the same day, it has to "settle" before you can trade that money again. If you buy and sell on the same day, then that money can become available to trade 3 days after. If you held it overnight and sold it the next day, then that money becomes liquid after 4 days. What would've happened if there was a nice juicy PR on the 3<sup>rd</sup> day? Guess what? You missed it.

I cannot tell you how many times I missed out on a stock that soared more than 100% because my funds were still settling. ALWAYS have money to trade everyday. In economics, it's called an opportunity cost. Every day is an opportunity to make money and if you don't have money to trade, it'll cost you.

Get in, Get out. Tomorrow is another day.

#### Buy and Sell on the Same Day

#### 5. Don't Hesitate and Never Chase a Stock Up

If you've done your research, DO NOT HESITATE TO BUY THE STOCK. That's what this book is for. To give you the confidence so you won't hesitate. Hesitating means that you'll fight yourself and eventually give in and buy only to have discovered you bought at the highest point of the wave. That has happened to me numerous times. If you did your research and it's good, don't hesitate. After it's bought, DON'T worry. Just get your profit and split.

Another sub rule of this is to **NEVER CHASE A STOCK UP**. Sometimes, you may enter a limit order on a bid price and by the time you submit it, the bid price may have gone up due to huge demand. You change your order, accounting for the new bid price and submit again. The bid price has gone up again. If you keep on chasing the stock up, you may have bought on the highest point of the wave. If you cannot catch the bid price within two tries, don't bother chasing it up. There will be another play later on.

#### Don't Hesitate and Never Chase a Stock Up

## **6. Have a Realistic Pre Set Profit Percentage Gain**

I'm only going to take profits when my stock goes up 100%! Get real. Your profit percentage gain and risk of losing money is directly proportional. The higher you set your profit percentage gain, the higher your risk of losing money will be. Set a realistic goal. I make mine 10% for everyday trades and 20% when it comes to trends. I can afford to take higher percentage gains on trends since the demand is so high. 10% may not seem a lot, but 10% daily for a month can really add up. It is a nice safe percentage gain and can easily be made on a daily basis.

### **Have a Realistic Set Profit Percentage Gain**

## **7. Learn from your mistakes**

You will make them. I've made a lot. The reason I'm successful is that I'm learning from them. If you made a mistake, FIND OUT WHY. The reason may be because you got greedy and held too long, or maybe you held too short, or maybe you picked the wrong stock, or you forgot to do one aspect of your dd.

You WILL make mistakes. What separates winners from losers are those who learn from their mistakes.

### **Learn from your mistakes.**

## **8. Study the market everyday.**

After the market closes, spend about 30 minutes each day going over the top performing stocks. This is where MicrocapFeed is extremely useful. It's an education in itself. You pull up the top 400 stock, and sort by % change. This will give you the greatest percentage changes that have occurred in the penny stock market. Find the ones that have had the greatest percentage gain and find out why. What was the catalyst? What was the high point of the day? Would I have bought it? When would I have bought? When would I have sold? etc.

### **Study the market everyday.**

## **9. Do NOT use money that is needed for bills.**

You'll be emotionally attached to your money and make stupid decisions. It puts enormous stress on you and pressure that will alter your judgment. You need to use money you don't need. How do you get that money? There are several ways. Don't drink that

latte in the morning. Save your loose change. Build a home gym and quit the gym membership. Drink water instead of soda. Pack your lunch to work. There are tons of ways to come up with cash. Just make sure it's cash you don't need for bills for rent, car, insurance, food, gas, water, etc.

**Do NOT use money that is needed for bills.**

## **10. Always stick to your rules**

You should always have a list of rules that include your maximum profit percentage gain, your maximum stop loss percentage, your rules for determining whether a stock is worth investing in (maximize demand, minimize supply), etc. Always stick to your rules because they are there to protect your capital. ALWAYS.

**ALWAYS STICK TO YOUR RULES**

**Bonus Rule: Never buy when there is a huge spread between the bid and the ask.**

For example, if the bid is \$0.05 and the ask is \$0.10, that would mean in order to buy shares, you would have to buy at \$0.10. If you wanted to sell those shares, you would sell them at the bid, which is \$0.05. You would lose half your money. In order to break even, you would have to wait until the bid moves up to \$0.10.

You will find that on plays where there is lots of volume, which is what you want, the bid and the ask will be tight (i.e. 0.09/0.091). That is good. You do want a tight bid and ask. That will give you more control over your money.

Here's a simplified list of the 10 Irrefutable Laws of Day Trading Penny Stocks.

1. Only use "WOW" news.
2. You alone make the decisions.
3. Have a pre-set stop loss percentage and USE IT.
4. Buy and sell on the same day.
5. Don't hesitate and never chase a stock up.
6. Have a realistic pre set profit percentage gain and USE IT.
7. Learn from your mistakes.
8. Study the market everyday.
9. Don't use money needed for bills.
10. Always stick to your rules.

## Chapter 8: The ALPHA LAW OF DAY TRADING PENNY STOCKS

This law by far is THE LAW that will determine whether you make any profit at all from day trading penny stocks. IT is SO CRUCIAL, that I've dedicated an entire chapter to it.

Here it is, THE ALPHA LAW OF DAY TRADING PENNY STOCKS:

**Once your stock has reached your profit percentage gain, SELL IT.**

For example, if you decided to take 10% gains, and you buy stock ABCD at 0.10 and it reaches 0.11 (your 10% mark) SELL IT. SELL IT. SELL IT. SELL IT. NO MATTER WHAT. I cannot emphasize this enough.

Let's say you invested \$1,000 and your stock reached its 10% level. You essentially gained \$100 in "paper money". If someone were to offer you a crisp \$100 bill and told you that in 30 seconds, he would either give you more money OR less money OR NO money at all, what would you do? Take the \$100 bill! Now I know this is a drastic example but it's the kind of mentality you need so that you don't get burned by greed. The #1 quote for day trading is "pigs get slaughtered". I have experienced this multiple times and know many associates who have had the same woes.

**Once your stock has reached your profit percentage gain, SELL IT.**

Why am I so adamant about this? What happens if it goes higher?

As humans, we want more. We're greedy and when we see our stock climbing, we fool ourselves by saying "YES, just a little bit more, just a little bit more". Guess what. Soon that turns into "Oh crap, it's going down, it's ok, it's just a shake, it'll go back up". Then that turns into "Uh oh, I'm back to my original investment, should I sell?" That turns into "I'm such a moron, I had a profit but I didn't take it. Now I'm stuck with less money than before!!"

This scenario has been ALL TOO COMMONLY experienced by day traders at the novice level.

As novices, you're still attached to your money. **You've got to remember that taking profits is never wrong.**

As for you skeptics who say, what if it had gone up 200% more that day? Wouldn't you have missed out on that? The answer is NO.





## Chapter 9: Paper Trading

Paper trading – your training wheels to success. You MUST paper trade. But first, what is paper trading? Paper trading is simply practicing day trading with imaginary money. You basically keep track of what stocks you buy, the reason why you bought it, how much you bought, at what price you bought, and at what price you sold. There are many online tools that can keep track of this for you. If you have a yahoo account, you can keep track of your paper trading through their online portfolio. The web address is <http://finance.yahoo.com>. I used their online portfolio and I suggest you do the same. Do this for one month and record you progress. The profits/losses will automatically be calculated. All you have to do is put in the numbers.

Paper trading serves many useful functions. First, it gives you a feel of the whole process. There is room for error, since the money you're using is not real. You start to develop confidence in your decision making ability. Once you see you're making money, you'll begin to see the money you can make from doing this. You'll also definitely make some mistakes along the way. That's good. The important thing is you learn from it. You'll also get a feel of the tone of PRs and develop your own sense of "WOW" PRs.

The only cardinal rule of paper trading is that you have to be 100% honest. When you decided to sell at a certain price, record that price. If a stock was tanking, don't fool yourself and put a higher price than what you would have really sold at. Conversely, don't put the highest price as the price you would have sold at. Put the REAL price down. If you are not honest with yourself, paper trading will be meaningless. You will realize your mistakes when you trade with real money and wonder why you are doing so poorly, so be 100% honest.

But what's the process of paper trading? How do you start? What do you need? Do not worry. Everything you need and have read so far will be chronologically laid out in steps for you in the next chapter.

## Chapter 10: Putting It All Together

You must have learned a lot of new concepts. It must be very overwhelming but fear not, this chapter will tie everything together in chronological order, leaving no stone unturned.

First off, you have to decide how much “practice” and real money you are going to use.

Everyday is an opportunity to make money. You have to make sure you have cash everyday to take advantage of that. Here’s the best way to do that.

### **Step 1:**

Determine how much money you are going to use investing in one stock.

For this example, let’s assume \$800. You will buy \$800 worth of shares every time you invest.

### **Step 2:**

Multiply the number in step 1 by 3.

Example:  $\$800 * 3 = \$2,400$ . That’s how much money should be funded into your online account or into your paper trading account. That’s all the money you will need so that you can trade everyday.

### **Step 3:**

Let’s assume you buy \$800 worth of shares on Monday, and sell it when the stock rises by 10%. You’ve made \$80 ( $\$800 * 0.10$ ) – commissions. Let’s assume commissions = \$15. So in actuality, you made \$65 in pure profit.

Repeat step 3 for Tuesday and Wednesday. You’ve used up all your cash. What now? For Thursday, the money you spent on Monday will have “settled” and will be available for trading on Thursday. The money you used to buy and sell on Tuesday will have “settled” and be available for use the next day, Friday, etc. Once you buy and sell a stock, there is a three day settling period before that cash can be used to buy and sell again on the same day.

That’s the best way to maximize your money.

Follow steps 1-3 in paper trading and when you actually start day trading. That way, you will have cash ready everyday to take advantage of every possibility.

## Paper Trading Stage

First off, you MUST meet ALL of these requirements in order to start practicing day trading penny stocks (aka paper trading).

1. Have a fast and reliable computer.
2. Have a fast Internet connection.
3. Software to record your paper trading results (finance.yahoo.com)
4. MicrocapFeed - [Click Here For The MicrocapFeed Discount](#)
5. In depth knowledge of this book.

The market opens at 9:30 EST. Plan to wake up 30-45 minutes before and do your dd.

- 1) Launch MicrocapFeed and go over the news and filings that have been released by clicking on news and filings.
- 2) Read the PRs and pick stocks that have released "WOW" press releases and add them to your watch list in MicrocapFeed (click personal workspace, create a new watchlist, and enter in the stock symbol.

You can create several watch lists in MicrocapFeed. I keep one that I named "Today", which contains the stocks that have released "wow" press releases. I also keep another watch list named "Trend Stocks", which contains all the penny stocks associated with the current trend.

- 3) Pull up the float and RSI level of those stocks in your watch list for today and making sure the supply side is relatively minimized. If it is not, delete the stock from the watch list. Do the same for your trend stock watch list.

You can check the float at [PinkSheets.com](#) (enter in stock symbol, select "Company Info" tab) if the stock symbol is in pink letters. If the stock symbol is not in pink letters, you can check the float at [otcbb.com](#) (enter in stock symbol, see box that says "Shares" under quote tab).

You can check the RSI level at [Stockcharts.com](#) Just enter in the symbol name. If you cannot see the RSI level, go down to the indicator windows and select RSI.

- 4) Check to make sure no S-8's were recently filed (within 6 months). If the stock is traded on the pink sheets, the stock name will be pink in color in MicrocapFeed. That means you have to go to [PinkSheets.com](#). Just enter in the symbol name

and click the SEC filings tab to see if any S-8's have been recently filed. If the stock is not in pink letters, it trades on the OTCBB. You would have to go to [otcbb.com](http://otcbb.com), enter in the symbol name, and click the Filings tab to see if any S-8's have been recently filed.

- 5) Check prior PRs of that company to make sure that it's not overdose (some companies release the same or near same PRs every other day).

You can do this by pulling up the chart/quote montage in MicrocapFeed. There, you will see recent PR's that have been submitted by that company under the news and filings section.

- 6) Narrow down your watch list to those stocks that have passed the supply and trap tests found in steps 3-5.

**Be quick when you do your dd. Don't hesitate.**

- 7) Watch the stocks the first 5 minutes after the opening bell to see if volume and demand is pouring in.

**Make sure there is high volume** (getting to/surpassing the 20 day average volume), that's good. You can sort your watch list by # of trades to see which stock(s) you picked are getting the most attention. Then zero in on that stock and watch it closely for the following two criteria.

**Make sure that people are buying.** You can verify this by seeing if people are buying at the asking price. If the sales show shares being bought at the current asking price, that's a good thing. People want the stock. Make sure that the number of people buying is substantially greater than the number of people selling. If you see a 50/50 ratio of buys and sells, that will not increase the price. The number of buys must be high compared to the number of sells. That will drive the price up.

**Make sure that the bid/ask is tight.** If there is a large gap between the bid/ask, be wary. A tight bid/ask would be 0.01/0.011. A large gap would be 0.01/0.03.

- 8) Determine how many shares you will buy and at what price. Do this by taking the amount of cash you are using (remember the \$800 dollar example at the beginning of the chapter) and divide it by the asking price. That will give you the number of shares you want to buy.

Example:

Cash to be used: \$800

Asking price: \$0.01

Shares to be bought when entering in limit order:

$800/0.01=80,000$

If it doesn't come out to an even number, try rounding it off so that it's a nice clean number.

For example, if you do the math and the shares to buy comes out to 91,234, round it off to 91,200. It just makes things much easier and your order might be processed faster.

- 9) When you hit your profit percentage gain limit, SELL IT.  
When you hit your profit percentage gain limit, SELL IT.  
When you hit your profit percentage gain limit, SELL IT.

No, that's not a typo. It was written three times to stress the ALPHA rule one last time.

**When you hit your profit percentage gain limit, SELL IT.**

No, that's not a typo either. There's the last warning. Consider yourself warned. If you lose, it's because you were greedy.

If there are no good PRs when the market opens, have no fear, they are released throughout the day. You still have 7 hours worth of possibilities to work off of.

- 10) Record your results into your paper trading portfolio.

Evaluate how well you did. Which stocks that you picked did well? Which ones did poorly? Why? Which stocks did well that you DID NOT pick? Why?

### **The Real Deal (using actual money)**

You Must Meet ALL these requirements in addition to the previous requirements mentioned in the beginning of this chapter to start the real deal.

- 1) Sign up with an online broker (Scottrade, E-trade, Fidelity, etc) and fund the account with cash.
- 2) Repeat steps 1-9, except actually enter in the buy and sell limit orders from your online broker.

## Entering a Buy Limit Order (Scottrade)

1. Select Buy
2. Enter in the number of shares to buy (calculated from step 8).
3. Choose the ALL OR NONE option.
4. Enter stock symbol.
5. Choose Limit Order Type.
6. Choose Today for Duration
7. Enter the asking price used when you calculated how many shares you wanted to buy.
8. Submit.

**Important note:** Choose the ALL OR NONE option. That means you want to buy all of the shares. You don't want to buy half of the shares one time and then half another time. If that happens, you pay commissions twice, and you might end up buying the second half at a higher price.

**Entering a Sell Limit Order** (after you've reached your profit percentage gain).

1. Select Sell.
2. Enter in the number of shares to sell.
3. Enter stock symbol.
4. Choose the ALL OR NONE option.
5. Choose Limit Order Type.
6. Choose Today for Duration
7. Enter the current bid price.
8. Submit.

If that was a little too much, here are the steps again in simplified format.

**Step 1:** Make sure you fulfill all the starting requirements (fast computer, fast Internet connection, etc.)

**Step 2:** Launch MicrocapFeed and read through the press releases and add any companies that have "WOW" PRs to your watch list.

**Step 3:** Check float size and RSI level for the stocks in your watch list.

**Step 4:** Check for recent S-8 filings.

**Step 5:** Make sure these PRs aren't just yesterday's PR reworded.

**Step 6:** Narrow down your watch list with the information given in steps 3-5.

**Step 7:** Watch the stocks like a hawk on the opening bell.

1. Check for volume reaching/exceeding the 20 day average.
2. Make sure people are buying at the ASKING price.
3. Make sure the bid/ask are tight.

**Step 8:** Choose a stock based on the above 3 factors and calculate how many shares you will buy.

**Step 9:** Enter an ALL OR NONE buy limit order for the stock you want to invest in.

**Step 10: When you hit your profit percentage gain limit, SELL IT.**

Don't fall for the traps (Chapter 4), follow the 10 Irrefutable Laws of Day Trading Penny Stocks, follow THE ALPHA LAW, paper trade for a month, and then follow the above 10 steps

There you have it. Your ultimate step-by-step guide to day trading penny stocks.

To the beginning of your financial future. May day trading penny stocks bring you one step closer to your dreams as it has to mine.

- Jason T. Brook