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Penny Stocks Guide

Penny Stocks Trading Guide for Beginners is a step by step beginner's guide on how to make money with penny stocks. I've been trading penny stocks for a few years now with decent profits and I'm going to show you how to trade penny stocks with the strategies that I use.

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Trading Mindset

I only trade penny stocks that are listed on the major stock exchanges such as NASDAQ and NYSE. I don't trade OTC penny stocks or Pink Sheet penny stocks because they are way too risky.

The most important lesson I learn about penny stock trading is that in order to make money consistently, your mindset is much more important than your trading strategy. Most people lose money trading penny stocks because they don't have the right mindset.

How Traders Lose Money?

People trade **penny stocks** because they want to get rich overnight. They see a penny stock that's making a 100%, 200%, 500% or even 1000% gain in a short period of time, and they thought that's the norm. In reality, penny stocks go bankrupt on a daily basis and many get delisted from the major stock exchanges or moved to the OTC market. If you are holding one of those stocks, your stocks will go down and you may lose all your money.

So what's the right mindset? The mindset is that you will never try to get rich with one stock or a few of them, and that you are not going to get rich overnight. Your goal is to make consistent and smaller gains for each penny stock you trade. It is much easier to make a 20% gain on 5 penny stocks than one penny stock with a 100% gain, yet they achieve the same results. You will also need to learn that it takes a lot of practice and study of stock charts in order to make this kind of gains consistently, it doesn't just happen overnight.

How to Trade Penny Stocks

Now we got the mindset out of the way, let's move on to the **penny stock strategies** that I'm using. First, I build up a list of **penny stocks to watch** with the following criteria.

1. Stocks from \$0.8 - \$5 - Find penny stocks that are trading in the range of \$0.8 to \$5 and trading on the NASDAQ, NYSE or AMEX exchange.

2. Huge Spike in Price Recently - The penny stocks must have a single day where it spiked over 30%, and at least a 80% gain over one or multiple consecutive days within the past 20 days. In addition, the trade volume must be at least 8 million on the spike day and it should be much higher than the average trade volume. In other words, the penny stocks have to spike with unusual high volume.

3. Falling Over 40% From Recent High - The penny stocks are now falling over 40% from their recent high with low trading volume, much lower than the day it spiked. This is very important.

I will now watch these penny stocks on my watchlist and wait for them to drop over 50%.

If I like the stock chart pattern, I will put a limit order to buy the penny stock. Since the trading volume is much lower now, sometimes it might take a while to get my orders filled. Also, I put a limit order to sell my stock as soon as I bought the stock. The limit order is for profit taking and my goal is 20% for each trade, I use mental stop loss in case the trade goes wrong. When a penny stock gap up, I end up making more than 20%. I

made 35% on a recent trade and then another for 55% gain when they gapped up the next day.

My Recent Trades

Let's look at some of the stock charts for my winning trades recently and discuss my **penny stock strategy** in more details.

1. HTGM - The stock spiked with huge volume on 3/24 with an intraday high of \$13.25. The stock then dropped over 40% with low volume the next few days, so I added to my watchlist. I bought the stock at \$5.35 on 4/5. Unfortunately, my order only got filled partially that day meaning there weren't that people selling at that level by the time I setup my limit price to buy the stock. As soon as I bought the stock, I put a limit price to sell the stock for 20% profit from my entry price. Guess what, the stock hit my 20% target the next time and I sold my shares. The stock went much higher after I sold my share and then retraced. Note, I didn't sell the stock at a higher price but it doesn't bother me at all because I knew it is much easier to hit 20% than 50%. You will never be able to predict the high of the day, don't let your emotions such as greed take over you.



2. **ZAIS** - The stock spiked over 30% on 2/14 with huge volume and then it retraced the following few days with very low volume. I added the stock to my watchlist when it dropped over 40% and then bought the stock at \$2.36 on 3/20. Again, I set my limit price to sell for \$2.83 as soon as I bought the stock. The stock continued to go down after I bought it and then it gapped up on 3/24, 3 days after I bought the stock. The open price was much higher than my limit price and I ended up selling the stock for \$3.64 with a gain of 54%. Again, the stock kept going up after I sold my stocks before retracing. Imagine if I were to keep holding the stock, my profit would have been erased in the next few days. Remember, there is usually only one chance to sell, if you missed it, you may

turn a winning trade into a losing one. So always set a limit order to sell your stock, so that you don't have to watch your stocks all the time.



3. INNL - The stock made a move with huge volume on 3/13 and then it made another high of \$2.58 3 days later on 3/16. Note, my 40% and 50% rule is based on the highest price of the recent stock price so it would be based on the \$2.58 on 3/16. The stock then went down the next few days with much lower volume. I ended up buying the stock at \$0.99 on 3/27 and sold it 2 days later for \$1.33. Again, the stock gapped up and I made 34.4% which is more than the 20% limit price I set. Few days after I sold the stock, it was

trading at almost \$2.5 which is over 80% more than the price I sold. Like I said, it doesn't bother me at all because I made a profitable trade.

Note, I don't automatically buy a stock when it dropped 50% from the recent high, I would study the chart and try to get in as cheap as possible. Of course, that means I would often miss some profitable trades, but it also prevents me from entering bad trades.



4. ZSAN - The stock made a big move on 2/13 with over 40 million trading volume, and then it made a new intraday high 4 days later at \$3.54. In the next 10 days or so, the stock retraced over 40% with low volume and I added to my watchlist. I bought the stock on

3/20 at \$1.65 and sold it 3 days later for \$1.99 for a 20.6% gain. The stock kept dropped right after I sold and never came back up for the next month. Therefore, it is important to always follow your rules and set a limit price for profit taking right after you buy the stock. This way, you will never miss a chance to sell and also force yourself to be discipline all the time.



How to Find Penny Stocks

You can find **penny stocks to watch** with

1. [Penny Stocks Screener](#)
2. [Top Penny Stocks](#)

The penny stock screener is available as mobile apps for Android and iPhone.

[Penny Stocks](#) for Android

[Penny Stocks](#) for iPhone

Trading Rules to Follow

The following are the top 10 penny stock rules that you should always follow.

Rule #1 - Never trade with the money that you can't afford to lose

If you need the money for emergency use, don't use it to trade. Trading penny stocks is risky especially for stock market beginners. You may lose all the money that you put in.

Trading requires patient and if you are relying on this money to buy food or to pay rent, you will most likely get emotional and make the wrong decisions.

Rule #2 - Stop Loss

Always have a stop loss for each penny stock you buy. You should calculate your stop loss before you enter a trade. Trading penny stocks without stop loss is doomed to fail. When you trade without a stop loss, even if you make a 20% profit for each trade on 5 consecutive trades, you may lose it all on a bad trade. So setting a stop loss for your trade is extremely important.

Rule #3 - Limit Order

Always use limit order to buy and sell stocks. Never use market order because most penny stocks are illiquid, and there might be a big difference for the price you see on the screen and the price you end up getting.

Rule #4 - Get out when your trade is not working out

If a trade is not going your way, get out. Some penny stocks won't move anywhere for a long period time, you don't want to expose your money to risks with those stocks. Often, a stock chart pattern might look like it is going to make a move any time soon, but it's usually your imagination. So get out if the stock is not going up, you don't want to tie up your money for these penny stocks.

Rule #5 - Trade only penny stocks with high volume

Most penny stocks have low trading volume and you will often have to pay more when buying a stock or sell it at a discount when you try to sell a stock. It is because there aren't that many buyers and sellers and you will have to pay more for slippage costs. So only buy penny stocks with high volume.

Rule #6 - Don't Overtrade

When you can't find the right trade setups, don't trade. This is a mistake that many stock market beginners make and I learn it the hard way. I used to trade all the time because I want to keep myself busy and sometimes I would trade stocks that don't fully meet my trading requirement. I ended up losing money on these trades and the losses added up quickly. Not only did those bad trades wash away my profit, they also hurt my confidence in trading. I had to stop trading for a few weeks and analyzing what went wrong. I learn that when I made good trades consecutively, and my stocks were up 20%, 30% and 50%, I let my ego get in the way. I felt like any stock that I touch would go up, and I started to overtrade which turned out to be a disaster. Eventually, I learn to correct my mistake and now I'm much more patient. If I can't find a stock that meet my criteria, I won't buy even if that means I had to wait a week or two or even longer.

Rule #7 - Don't fall in love with any stock

Always remember you are trading penny stocks, not investing. Trading means you buy and sell a stock in a short period of time usually within a few days to a few weeks, whereas investing means you buy and hold a stock for a year or two or even longer. So if your stock is falling and hit your stop loss, sell it. Don't try to double down or do anything crazy. I see many traders double down, and even triple down on a losing trade and eventually lose everything on a single trade. It's not worth it, take your loss and move on.

Rule #8 - Record your trades & learn from your mistakes

You should have a trade journal that lists all your trades, for both winning and losing trades. You should study them and learn from them especially the losing trades. Try to find a pattern and avoid the losing trades and learn from your mistakes.

Rule #9 - Don't rely on trading tips

You should always trade based on your strategies and rules. Never trade penny stocks based on tips from penny stock gurus or your friends. You can use the tips and do further research yourself, and see if the stock meets your trading criteria, just don't buy or sell the stock purely based on their tips.

Rule #10 - Follow your own rules closely

You should always follow your own rules when it comes to penny stock trading. When you enter a trade, you should have a stop loss and a target price in mind. If the stock price hit your target or your stop loss, you should sell it. Never let your ego get in the way, and think this time is going to be different. Trading penny stocks and making money for the long term is all about discipline. If you let yourself break your own rule once, chances are you are going to break your rules again in the future, and eventually you may lose all your money because of one or more bad trades.

Every profitable penny stock trader has their own trading strategies, but it is not the trading strategies that are making them money in the long term, it's their discipline to follow their trading techniques and rules.