Are You Ready To Become An Investment Genius?

Follow SMALL CAP FIRM - Rules Of The Short-Term Penny Stock Trade So You Can Prevent Common Mistakes!

Notice to Readers: The information and tips below are solely based off our own experience and philosophy from years of trading the markets. There is no such thing as shortcuts when it comes to building wealth through the trading of stocks. Our strategies and tips will NOT guarantee gains. SmallCapFirm.com encourages all users to do their own research and due diligence and consult with a licensed financial professional before investing.

First Step to Becoming a Small Cap Firm Trader:

If you are interested in investing the first thing you will need is a brokerage account if you don't already have one. Some people still utilize stockbrokers to place their trades, which are typically more expensive. When it comes to investing in small-cap stocks most individuals have a brokerage account with one of the major online brokerage houses such as **ETRADE, SCOTTRADE, TD AMERITRADE** and any other online trader with low commissions. Low commissions are typically between $12 and under. Make sure you research all firms carefully before making a decision. The reason most small-cap traders and investors use online firms is because major brokerage houses can charge anywhere between $50 to north of $100 per trade depending on how many dollars you invest per trade.

Example	Online Brokerage	Expensive Firm	Really Expensive Firm
Dollars Invested	$1,000	$1,000	$1,000
Percentage increase	20% ($200 Profit)	20%($200 Profit)	20%($200 Profit)
Commission to Buy	$10	$50	$100
Commission to Sell	$10	$50	$100
Profit After commissions	$180	$100	$0

From the chart above you can see why the major online trading firms have been so successful. Who wants to give their profits away to their stockbroker?

When you begin to do your research, make sure to ask the firm what kind of trading platform they will give you access to. The more they give you for free the better the value, especially if you are new to trading.

Questions you should ask when deciding which firm to choose:

1. **If I open an account with your firm will I have access to real-time quotes?**
2. **Do I have to pay for real-time quotes?**
3. **Will I have access to real-time level 2 quotes?**

Remember the best investors ask questions before making a buying decision! Although you may not know why we are having you ask these questions you will appreciate that we did in the future.

Most of the Firms we have mentioned do offer real-time Level 2 Quotes, however, most require upwards of $25,000 in your account to use these platforms. If you do not have this type of liquidity, we recommend using www.EquityFeed.com for real-time quotes as compliment to your basic trading account for Level II quotes.

Pros and Cons of OTC STOCKS:

Trading penny stocks can be quite different than trading stocks that are over a few dollars per share. There are times when a single trade can drastically influence the movement of a stock and shareholder sentiments on top of that. People or investors are creatures of habit and unfortunately fear and greed can contribute to bad decisions. So it's important to understand that small-cap stocks are very volatile(can go up or down quickly), fear can set in amongst investors if a stock goes down quickly, or greed can take over if a stock goes up quickly. So the key is Liquidity. That's why signing up for SmallCapFirm.com is so important. Instead of having traders spread thin over a vast range of stocks, fighting to be able to get a sell without dumping at the bid, or being forced to pick up shares over a huge spread, we alert a large amount of traders on a single stock, so that the stock can have enough liquidity in one or a few days to allow traders for quick entry and exit strategies.

What Causes A Penny Stock To Rise?

The most crucial catalysts are usually News via Press Releases, Material Events (typically filings), hype, promotions, and newsletters. It is important to understand that this market is also full of insiders who manipulate stock prices, short sellers, and companies who dilute their own stock by increasing the share count. It is impossible to know how a penny stock will trade with these factors. A penny stock may start to run and before you know it, an insider may dump or the company may dilute and that run will effectively be over. The best defense is to always research the company, their share structure, and their history to know which stocks to stay away from.

To Day Trade Or Not To Day Trade?

Sometimes penny stocks are only worth holding for a day or even a few minutes! It all depends on the liquidity and the fundamentals of the company. If a stock is trading with great liquidity and is moving fast, your best bet is to take profit right away. Why be greedy? No one has ever lost a dollar by taking a profit! Do not worry yourself about missing a few extra gains – remember that the eighth wonder of the world is compounding interest! In the long run, if you make it a habit of securing profits when you can, you will see your portfolio grow immensely. Some traders wait for the BIG money trade in which they book a 200-500% gain all the while they are losing on other stocks where they missed the opportunity to grab a 20-30% gain. The trick is not to be greedy.

Playing With House Money

There are cases when you may not want to sell, in the event that your gut instinct tells you to hold a stock for higher gains, do yourself the favor of not listening completely to your gut. If a stock starts to run shortly after you have purchased it and you are up anywhere between 50-100% you should probably sell, but if you feel the stock can continue to go higher and you are willing to take the risk of holding it then you should at least pull out your principal investment(original amount you put in) or principal + some profits and keep a small position in the event that it goes higher. The great thing about this philosophy is that the price fluctuation can no longer affect your account negatively.

Cutting Your Losses

It is important to note that even the best traders lose money sometimes when trading. How is it possible to make money trading penny stocks you ask? A seasoned trader will tell you that you must know when to cut your losses. Timing is everything in this market. Using “Stops” is one way to cut your losses by placing a sell order at the lowest price that you are willing to take a loss. Remember, if you take a small loss on one stock, there is ALWAYS another opportunity to profit right around the corner from another!

Step 3: Understanding Level II

What are Level II Quotes?

In its simplest explanation, Level II is basically the market depth of each stock; it can give an investor insight as to how many buyers and sellers there are at specific price ranges.

***Example*: If you sold Newspapers for a living it would make sense to know how much your competitors are buying and selling newspapers for, don’t you agree? When you have this sort of information you know when you need to lower or increase the price at which you sell your newspapers. If everyone is selling papers for .60 cents and you sold them for .55 cents then people may buy more from you, right? And if you know that your competitors are buying newspapers for .10 cents why would you buy your supply for .15 cents per paper? You wouldn’t!!**

Level 2 is a must-have for any serious trader. Combined with a side panel of the stock’s current “Times & Sales”, Level II Quotes can truly make a difference. We will now discuss how to interpret a Level II chart.

Below are some examples of Level II setups that are attractive and ones you should steer clear of. Remember, you are looking for stocks that have Thin Asks(few market makers at one price) and good bid support(good amount of market makers at the bid).

The four letters under MMID or MPID in the level 2 box are market maker symbols. Whenever you look at a level 2 for any stock you will see a list of Market Makers that make a market on that particular stock.

You will notice that most market makers are on the BID(left) and on the ASK(right). The reason for this is because market makers represent buy and sell orders. When you want to buy they represent your order on the bid side if there isn’t enough supply at the price you place your buy order. When you want to sell they represent your order on the ask side if there isn’t enough demand at the price you placed your sell order.

You will notice that both sides have a size of 5000. What this means is that each of those market makers representing buy and sell orders must have the ability to buy or sell **a minimum of 5000 shares or more** for their order to be visible on the Level 2. For instance if you were to place an order to buy 100,000 shares @ .005 one of the market makers would represent your order at .005

but may only show 5000 shares even though he's good for 100,000 shares. On another note if you wanted to buy 1000 shares at .0055 the market maker that receives your order will not be visible on the Level 2 Chart.

As you can see, there are many market makers bidding for stock at .005. Whenever you see a large amount of market makers on the bid side it means there are a lot of buy orders in at that price which is a good sign that there is demand for the stock at that price. On the offer side there are only two market makers representing sell orders at .006 so it can be argued that a little buying will move those offers and the stock would reach the next price point of .007 and could spark some momentum to prices as high as .001 which is a double(100%) for any buyers at .005.

Note: if you were selling 5,000 shares or more, the market makers representing your sell order would show up on the offer unless the order is routed to a market maker already offering stock at .006 like NITE or UBSS. Although it's not necessary you can always ask your broker which market maker your order was routed to if you feel your order is being misrepresented.

MMID	BID	SIZE	MMID	BID	SIZE
VFIN	.0005	5000	NITE	.0006	5000
LAFC	.0005	5000	UBSS	.0006	5000
AUTO	.0005	5000	ETMM	.0007	5000
NITE	.0005	5000	HDSN	.001	5000
UBSS	.0005	5000	AUTO	.003	5000
ETMM	.0005	5000			

Shop till the stock drops

Here is an example of a setup that you should engage with caution. As you can see there are plenty of sellers on the Ask but the bid support is really thin. If you owned shares and wanted to sell them on the bid the market maker would most likely fill you on a minimum of 5,000 and drop down to a lower price. If you were interested in buying shares this level 2 should encourage you to shop for cheap stock at prices as low as .01, which seems to be the support level. In short if you owned stock it would be difficult to sell and if you were looking to buy stock this level 2 should encourage you to buy this stock at cheaper prices.

MMID	BID	SIZE	MMID	BID	SIZE
VFIN	.024	5000	NITE	.025	5000
LAFC	.012	5000	UBSS	.026	5000
AUTO	.01	5000	ETMM	.026	5000
NITE	.009	5000	HDSN	.03	5000
UBSS	.009	5000	AUTO	.031	5000
ETMM	.009	5000			

WHOAA! You Can Drive an 18 Wheeler through That spread!

Below you can see a very common occurrence in the small-cap market. This is what is called a **"Huge Spread"**. A Spread is the difference between the bid and the Ask. In the example below the bid is at $.22 and the Ask is $.50. If you were to invest $5,000 at .50 and wanted to sell you would take a $3,000 loss. On the other side of the coin, it also seems like the stock could go up to $.80-$1.50 with very little buying pressure. In situations such as these you need to pay attention to how often the stock trades at .50. If there seems to be buyers for this stock in the .50 cent range then it may make sense to place buy orders on the bid side and try to put in a sell order on the offer side. Stock with big spreads typically have very little volume but if you decided to take the risk it would only make sense to shop around for cheap stock and keep any buy orders at the same price as the bid or slightly above it if something is compelling you to own it.

MMID	BID	SIZE	MMID	BID	SIZE
VFIN	.22	5000	NITE	.50	5000
LAFC	.21	5000	UBSS	.60	5000
AUTO	.20	5000	ETMM	.80	5000
NITE	.15	5000	HDSN	1.50	5000
UBSS	.03	5000	AUTO	.2.00	5000
ETMM	.03	5000			

Which Way Will It Go?

As you can see from the level 2 below this stock seems to have a healthy market. There is good bid support and an equal amount of offers @ $.0129 and the spread is tight.

Where will this stock go? Your guess is as good as ours. In this situation, it's best to do a little fundamental analysis to see if it's a good buying opportunity or not.

MMID	BID	SIZE	MMID	BID	SIZE
VFIN	.0125	5000	NITE	.0129	5000
LAFC	.0125	5000	UBSS	.013	5000
AUTO	.0121	5000	ETMM	.013	5000
NITE	.012	5000	HDSN	.013	5000
UBSS	.012	5000	AUTO	.0156	5000
ETMM	.011	5000	PERT	.019	

HUGE UPSIDE vs. LITTLE DOWNSIDE

As you can see from the L2 below there is good bid support in the $.05 cent range and the offer is extremely thin which means the stock could break out with very little buying pressure to prices as high as $.13-$.15 cents which is more than a 100% gain if you pick shares up @ .061 or lower.

MMID	BID	SIZE	MMID	BID	SIZE
VFIN	.05	5000	NITE	.061	5000
LAFC	.05	5000	UBSS	.09	5000
AUTO	.049	5000	ETMM	.13	5000
NITE	.048	5000	HDSN	.15	5000
UBSS	.048	5000	AUTO	.19	5000
ETMM	.04	5000	PERT	.19	

Understanding your Level II quotes is in our opinion the most important tool for trading Penny Stocks.

Determining A Company's Financial Health

In the penny stock market doing your DD (Due Diligence) can be the difference between making and losing a lot of money. So you must learn the following terminology so you can decipher information regarding stocks you want to purchase. We always encourage researching every company you plan to invest in.

Form 10K:

A Form 10K is an annual report required by the U.S. Securities and Exchange Commission (SEC) that gives a comprehensive summary of a public company's performance.

Although similarly named, the annual report on Form 10-K is distinct from the often glossy "annual report to shareholders," which a company must send to its shareholders when it holds an annual meeting to elect directors (though some companies combine the annual report and the 10-K into one document). The 10-K includes information such as company history, organizational structure, executive compensation, equity, subsidiaries, and audited financial statements, among other information.

Form 10Q:

Also known as a 10-Q or 10Q is a quarterly report designed to give a status of how a business is doing after three (3) months of operation. These reports generally compare last quarter to the current quarter and last year's quarter to this year's quarter. The SEC put this form in place to facilitate better-informed investors. It contains similar information to the annual form 10-K, however the information is generally less detailed, and the financial statements are generally unaudited. Information for the final quarter of a firm's fiscal year is included in the 10-K, so only three 10-Q filings are made each year. The form 10-Q must be filed within 40 days for large accelerated filers and accelerated filers or 45 days after the end of the fiscal quarter for all other registrants (formerly 45 days).

Reverse Merger (R/M):

Is the acquisition of a private company by a public company, allowing the private company to bypass the usually lengthy and complex process of going public. This is generally considered a good thing as it increases shareholder value - especially if the private company boasts good financials and revenues.

Forward Split (F/S):

A forward stock split will increase a shareholders stock position by a specific ratio announced by the company. Example: If a company announced a 4 for 1 forward and you owned 1,000 shares you would end up with 4,000 shares. In addition, the stock price would be divided by the first number to determine where the price will be after the split takes place. Forward stock splits are typically perceived as a positive material event.

Reverse Split (R/S):

A reverse stock split decreases a shareholders stock position by a specific ratio announced by a public company. Example: If a company announced a 2 for 1 reverse stock split and you owned 1,000 shares you would end up with 500 shares. In addition, the stock price would be multiplied by the higher number to determine the where the price per share will be after the split takes place. Reverse stock splits are typically viewed as a negative material event. The only time a reverse stock split is perceived as a positive is when a company needs to meet a price per share qualification to reach a higher exchange like NASDAQ, Amex or NYSE, which is typically an epic moment for any company capable of achieving such a thing.

Market Capitalization:

Outstanding Shares x Price Per Share = Market Capitalization(Market Cap). The investment community uses this figure to determining a company's size, as opposed to sales or total asset figures. A high market cap can sometimes be looked at as a negative if the company is not valued equally when it's compared to its yearly revenues, assets or earnings which would lead an investor to perceive that there is little to no future potential.

Outstanding (O/S), Authorized (A/S), Restricted Shares:

Stock currently held by investors, including restricted shares owned by the company's officers and insiders, as well as those held by the public. You will want to stay away from a stock with too many outstanding shares relative to its current price. Restricted shares are shares owned that cannot be sold on the open market until a specified date.

Float:

The company's float is the total number of shares publicly owned and available for trading out of the issued and outstanding shares. The float is calculated by subtracting restricted shares from outstanding shares. For example, a company may have 10 million outstanding shares, but only 7 million of the 10 million are trading on the open market.

Therefore, this company's float would be seven million. Stocks with smaller floats tend to be more volatile and move quicker than those with larger floats. You will want to look for floats that are not too low and not too large.

The best website available to research emerging growth companies is www.otcmarkets.com.

Once you punch in a stock symbol you can click on "Company Profile" and you will see information such as Outstanding, Float, if they have a history of reverse or forward stock splits.

You should always look for a stock flying under the radar just as we do! **Find stocks with revenues and a good story that have depressed market capitalizations because those stocks typically turn out to be homeruns**!

Home Runs-stocks that make an investor **5-10 times on their money (500-1000%)!**

Now You Are Ready To Begin Trading

Placing a Trade

First and foremost, you should always have streaming Level II quotes when trading. I honestly do not know how anyone trades without it! When trading, please follow the below guidelines:

Always use a Limit Order:

Most brokers won't even allow you to use Market Orders. Limit Orders allow you to set the price that you want to buy and sell the stock at. This is common knowledge however, you may see some novice traders make the mistake of placing a market order to sell and take out all buyers at the bid, effectively overselling the stock to lower prices.

Buy and Sell at the Ask:

Many don't realize that when you buy at the Ask price, you are HELPING the stock price to move up! Once that offer is gone from the shares you purchased, Market Makers could move up to the next offer price as they will see there are buyers at the current price. If you decide to place an order at the bid, you are basically hoping someone will sell their shares to you at this price and you may never get filled and miss the action. It is not always a bad idea to bid sit, as you are creating "bid support", if you believe the price may come down again and you are not willing to buy higher.

Using Stop Limit Orders:

Some brokers do not allow you to use stops, however, if you can – it is always a good idea to set your stop loss at the lowest price you are willing to take a loss. You may kick yourself when the stock moves back up and your stop already executed, but remember, there will always be other opportunities and its always best to cut your losses just in case.

All or None Orders (Fill or Kill):

An example of an all or none order is when someone places an order to buy 100,000 shares @ .01 as an "all or none limit" order. By doing this they are telling the market that they wish to be filled on their entire position at .01 or not to be filled at all. For some reason we have seen market makers ignore these sort of orders on many occasions especially when a stock is on the move. We suggest against it but you will ultimately make the decision.

Do Not Chase:

Many people want to buy a stock so badly that they end up chasing the stock as it goes up. When they finally fill their order, they may have purchased it too high as traders who bought shares earlier begin to take profit, effectively lowering the stock price and making you a bag holder. Remember, 90% of the time, a stock will always retrace/dip back to an attractive level for you to grab shares.

Stock Gaps:

If a stock gaps up too high in pre-market, do Not Chase It. A big gap is typically 20-50% or more pre-market or within the first 5-10 minutes of the market opening. Most stocks that gap up will come down again during the day depending on what created the catalyst. Buying is always the catalyst but every once in a while there is earthshattering news on some of these small caps that makes pullbacks unlikely in the short term. Most of the time, when a stock gaps up the market makers will attempt to push it lower starting at this time to try to get investors to panic and sell shares back to them so they can make a profit on any shares they are short from filling orders on the gap. If you like the stock and it gaps up you can usually pick up cheaper shares when and if the market settles back.

Sell Into Strength Not Weakness:

Once you have taken a position in a stock you need to decide the price you would like to sell your shares. Most would recommend that you put a GTC sell order at that price. Unfortunately as traders have learned to utilize level 2, its best not to do submit GTC sell orders due to the possibility that your order will be represented by a market maker and it will seem as if there is resistance at that level which may compel sellers to get out of their position at a price lower than your price. We suggest that you watch the stock closely and once it hits your price target you can submit your order to sell. It’s important to understand that it’s always best to liquidate the stock into strength and preferably in smaller increments if you have a big position.

It Takes An Educated Investor To Choose The Right Opportunities

There are thousands of small-cap stocks in the stock market and although many of them have insane gain potential, timing can play a big role in which direction your account balance goes. It can mean the difference between making a return on your investment in a week or even months. You should do your own diligence before buying any penny stock.

The easiest route to finding new profitable trading ideas is to follow our trading alerts immediately!!

Let us do the hard digging and research and bring you the hot points so you can decide if it's an idea worth trading.

The faster you can realize your profits the quicker you can reinvest them!

Congratulations! You have now graduated from the SmallCapFirm.com trading school - I hope these lessons will help further your trading acumen and lead you to MONSTER PROFITS!