

THE
PENNY STOCKS
BIBLE

Making Money With Penny Stocks Made Simple



Welcome to the DoublingStocks.com...

Stock Picking Guide

This guide is aimed to help you get the most out of our newsletter, by actually understanding the research that me and my team do I aim to help you make more informed decisions.

After Marl has made a stock pick based on technical analysis, we often phone the CEO or company employee's for the "real deal" on what's going on. We study press releases and use advanced charting techniques to find the best entry points to make recommendations.

Utilising both technical and fundamental analysis through a team of qualified professionals we are able to find stocks with the most upside potential in today's markets.

Doublingstocks.com can help regular, less experienced investors to capture the kind of gains that will make a difference in their lives.

IMPORTANT NOTE: Please add "support@doublingstocks.com" to your contact list/address book/white list of your email account to ensure our emails don't get lost in your spam box.

Yours Sincerely,
Michael Cohen

Introduction

Throughout this book and the regular newsletters here is what I'm going to show you:

1. How to trade "channelling stocks"
2. How to limit your risk.
3. How to know when to sell.
4. How to identify the "hype merchants" from the real companies.
5. Which broker to use and why.
6. Why penny stocks have more potential than other investments.

I'm not going to fill this guide with fluff and filler, and I may not be an accomplished author. So if you read for style or for literary content then this report may not be for you.

But if you want the facts on the penny stock market. How people just like you are making thousands of dollars per week from their kitchen table. Then buckle up because I'm about to explain how you can earn thousands from the DoublingStocks newsletter.

Enjoy the book, and let me hear from you!

What is a penny stock?

Penny stocks are generally defined as a stock trading under \$5, but in my opinion it's more like stocks under \$2 that display true penny stock characteristics.

They tend to be fairly volatile, significantly rising and falling in value in very short spaces of time. Which is what makes using technical analysis (charting) a pretty effective way of predicting future price movements.

But we also study the fundamentals, looking into the company, its management, operations, financial position, share structure and growth prospects to name a few.

With the DoublingStocks newsletter we combine Mar's technical analysis with our own charting techniques and fundamental analysis. This helps ensure we only recommend stocks with great upside potential and as little risk as possible.

Especially in penny stocks we advocate the use of both fundamental and technical analysis together. By not looking at either, you will be significantly increasing your risk.

How to Trade DoublingStocks Stock Picks – From Beginning to End

Types of picks

As a doublingstocks subscriber you should get our picks once a week at some point during the week. Sometimes we may be a little late but this is usually just because of how time sensitive certain picks are. The US markets are open at 9:30 – 4:00 Eastern Time.

Long term play

A fair amount of the picks we make in the newsletter are because we like the companies fundamentals. These are the picks you want to buy and hold. They will fluctuate up and down as all stocks do but in the long term these types of picks should rise steadily.

They may be undervalued or have high growth prospects, or a combination of the two.

Short term plays

However sometimes we make picks where we are looking to exit with a quick profit in the following few days or weeks. Here we will usually email at an appropriate sell point. Otherwise we recommend watching the stock trade wherever possible and selling if the run slows and show signs of weakness.

There are many different types of shorter term plays.

Quite often Marl will recommend stocks because they have been “*channeling*” that is trading in a fairly predictable pattern or because they are about to “bounce”.

I will explain more about these methods of analysis later.

Getting a broker

In this section I just want to lay out the basics of a good broker, this could easily be pages and pages of material and charts.

Currently we recommend the broker: www.zecco.com to the majority of our members, with their offer of “free trades” allowing larger profit margins than with the likes of www.etrade.com

Although I must tell you schwab.com are better at certain things like getting your order filled and getting it done for less, but when starting smaller we prefer zecco.com

Alternatives we like include: lowtrades.com / scottrade.com / tdameritrade.com

Setting up an account is usually as easy as downloading the application forms, signing them, and folding them nicely into an envelope with a check to fund your account. You'll receive confirmation of your ability to start trading in pretty short order.

Placing a trade

Basically there are 4 different types of order you need to know about:

1. Market Order
2. Limit Order
3. Stop Order
4. Stop-Limit Order
5. Trailing Stop Order

Market Order: A market order is a request to purchase or sell a stock at the current market price. Market orders are pretty much the standard stock purchase order. One thing to keep in mind with a market order is the fact that *you don't control how much you pay* for your stock purchase or sale; the market does. This shortcoming can be met with a limit order.

Limit Order: This is an order that executes at a specific price that *you* set (or better) and can be open for a specific time period. While a limit order will prevent you from buying or selling your stock at a price that you don't want, if the price is way off base, the order will never execute. It's important to note that some brokers charge more for limit orders. Why? Simple because no execution means no commission.

Stop Order: This is a market order that is triggered once your stock reaches a specific target price, the stop price. Stop orders may also be called **stop-loss orders**, because they help investors put constraints on their losses.

Stop-Limit Order : This is identical to the stop order, except for the fact that a limit order is triggered once your stock reaches a specific target price.

Trailing Stop: Basically, this is a stop order based on a percentage change in the market price.

We usually find it best to use market orders or generous limit orders.

How to play the quick trades

For the long run growth picks you can forget this, in those trades you just want to monitor them passively and perhaps sell if they become overvalued (or if we email). What I'm about to explain is how to trade the short run momentum picks just looking to scalp a quick profit.

Before I go on to explain I want to make sure you grasp one vital concept: Never ever fret about lost profits, if you took a profit you shouldn't care if the stock continues to run after you sold.

When looking for a quick gain, what its really all about is the momentum the stock has and if that stocks run (pps increasing) starts to slow, this is usually a sign of weakness in the market and I'm looking to take my profit. Stocks do sometime slow down and plateau but in my experience if its just a momentum trade and the stock slows, take profit.

Don't worry about this because where appropriate we will send sell recommendations to you via email, or include a target price in the initial stock pick.

One of the reasons I like penny stocks so much, is because of the potential. With little to no institutional presence there is a lot more opportunity to find the gems in the rough. And you can easily pick-up a huge position while its trading very cheap on a lower exchange.

It's also much easier for a 13 cent stock to double than for a \$30 NYSE stock.

Volume has the answers

We always like to recommend stocks that trade on reasonable volume, this makes entry and exit from the stock much easier. But what you also want is stocks that also have a large number of trades.

It's always good if the stock you buy is one that people are buying and selling. For example it's better if a stock that has traded 20 Million shares on a day with an average trade of 100,000 shares as opposed to 500,000.

This is because:

An average trade size of 100,000 would equate to around 200 trades

Whereas an average trade size of 500,000 would equate to only around 40 trades.

So even on large volume there could only be a small amount of buyers, it's much easier to take profits in a stock trading on 200 trades a day than one trading on 40. It would also help you sell closer to the top of the stocks run.

Fortunately we make sure all our stocks meet these specifications, so you needn't worry but it's just a good habit to check yourself.

Channeling Stocks

A channeling stock is a stock in a trading range with prices bound by two parallel trend lines. The parallel trend lines connect the highs and lows, which form the area in which the stock is channeling. The upper trend line acts as resistance, and the lower trend line acts as support. Channeling stocks and trading ranges are the typical price action in stocks, as stocks tend to trend less than half of the time.

A stock which breaks out of a channel or trading range is often affected by the duration of the channel, the width of the channel, and the strength of the breakout. Trading a channeling stock may mean buying support and selling resistance while waiting for a breakout to occur and a larger move to trade.



Context: Complete lack of trend during the channel or trading range, but often preceded by a trend.

Appearance: A channeling stock has limited movement and is bound by well-defined trading range. There is resistance above the stock and support below. Sellers lurk at resistance, preventing the stock from making new relative highs by selling at higher prices.

Buyers lurk at support, preventing the stock from trending lower or making new relative lows by buying at lower prices. This leaves the stock with horizontal price action rather than an uptrend or downtrend. The trading range may be wide or narrow, and is typically only resolved with a high-volume thrust to new relative highs or lows.

Trading Channels: Channeling stocks offer a variety of trading possibilities. Some traders will buy the stock at support with a stop-loss placed below support, anticipating a move back up to the top of the channel. Other traders will short sell the stock as it reaches the

high end of the channel in anticipation of a move back down toward support, where they expect to cover the short for a profit.

Finally, breakout traders will wait patiently for the stock to break out of the channel entirely before initiating a trade, expecting the stock to resume its prior trend. The price projection for a stock breaking out of a channel is dependent upon the characteristics of the channel as well as the intensity of the breakout.

Level 2 Quotes

You have probably heard of Level 2 quotes and are wondering what they are, how to use them and how to get them.

When you get a normal stock quote, you see the price of the last trade, the volume and the change from the previous price, this can be called a Level 1 quote.

Level 2 (L2, LII) is an essential tool that any serious trader requires. L2 lets you look behind the scenes at what is going on beyond the current bid and ask of a stock and gives you a clear snapshot of how much demand and supply there is at that precise moment in time.

The most basic and fundamental rule of the markets is that there are only two things which make any stock move, supply and demand.

- If there is a lot of demand for a stock, the price will go up.
- If there is a lot of supply, a stock will go down.
- If demand matches supply, the stock will go sideways.

Understanding Level II



To begin understanding level II you must understand how an open market works.

Let us use an example of your neighbour Frank who is selling his car for \$5000.

Your friend Lisa wants to buy his car, but low balls the offer at \$4800. Your other friend John also wants to buy the car, and since he knows that Lisa offered \$4800, he has to offer a better price to get it, so he comes in at \$4900.

As it turns out, your other neighbour Bob has the exact same car for sale, he heard that Frank is selling his for \$5000, but Bob wants to get rid of his car fast, so he prices it at \$4950.

What we have here is a market of two buyers and two sellers. If this car sale had a level II quote, it would look like this:

Buyers		-----		Sellers
JOHN	\$4900		BOB	\$4950
LISA	\$4800		FRANK	\$5000

This looks a little something like the image above.

You can clearly see that John is the highest bidder and Bob is the lowest seller. Odds are if John wanted to grab the car now, he would just meet Bobs price of \$4950 (aka hitting the ask), or if Bob wanted to get rid of his car quickly, he could just sell at the highest bid (hitting the bid).

Now imagine this scenario playing out hundreds of times every minute with hundreds of buyers and sellers and now you can understand the basics of level II.

Level II is essentially an order book for Nasdaq stocks, OTCBB and Pinks also have level II, but you will not find NYSE showing level II.

Instead of John, Bob, Lisa and Frank showing up as buyers and sellers, we have what are called Market Makers or MM's. When you place an order with your broker, he will route your order through an MM. The MM acts on your brokers behalf, placing the bid or matching the trade for you, in effect, you control the MM. These MM's your online broker is using are most likely not people sitting at a desk punching away at their keyboards, but rather, an ECN (electronic communications networks), examples of ECNs are NITE, ISLD and ARCA (but you needn't worry about these technical terms).

Getting Level II Quotes

Your current broker will most likely offer you level II quotes with your account. If your broker does not offer level 2 quotes you can always get them from third parties like www.alphatrade.com

Conclusion

Level II is an essential tool in your trading arsenal. If you are an active trader or just looking for the best entry and exits on your trades, you need to understand both technical analysis and level II. You are now able to see how strong demand and supply is in the market for a stock at any given time.

Penny stocks and trading costs

When trading penny stocks something you always want to factor in is the commission charges, unfortunately they can eat away a lot of the profit of those who only buy a small amount of stock.

But don't worry we have a few tips to help you out.

- Use zecco.com as a broker, customer service may not be great, but free trades are very hard to refuse. Besides since you're a member of doublingstocks you can always ask us any questions about how to place orders etc.
- Try not to purchase too small amounts of a stock, if you increase the amount of stock you purchase, you're lowering the impact of trading costs on you're profits.

Conclusion

You should now have enough of an understanding to start looking into the picks we make in the newsletter yourself. This is a good way to practice your stock analysis skills, and earn while you learn.

We believe penny stock trading should be kept as simple as possible, in this guide we have explained what we believe to be the key concepts you need to get started.