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Penny Stocks

There is a group of stocks trading on what is called “Pink Sheets” that are generally referred to as penny stocks. Many would be amateur investors believe that this is where the next gold rush lies, that you can get rich trading these stocks. Most penny stocks sell for under \$5.00 per share and many times for under \$1.00. Each of these stocks has a good ‘story’ to tell and the telling of that story is the problem. The stock is typically pumped up by news releases, articles or public comments by the CEO and his cohorts. There is one simple rule when it comes to investing in penny stocks. **DO NOT BUY THEM!**

There are a number of reasons for this rule. First, these stocks do not trade on an exchange, though some might. The exchanges have compliance rules regarding not only the price of the stocks but financial stability of the companies and most penny stocks do not meet these rules. Second, penny stocks are sold to the unwary. You will get an e-mail, news release or a report that will extol all the virtues of the holding and none of the woes. These articles or releases are by paid writers though many times that is hard to determine and many times these publishers are being paid in stock from the very company they are extolling. They want the price to rise so they can sell it, a practice that is known as pump and dump. Finally, almost all penny stocks do not make money. I have another rule: never buy a stock that does not make money!

Yes, some penny stocks make huge amounts of money for some investors and that information is screamed as loud as it can in the news media to make sure as many people hear it as possible. However, the odds of you making anything on a penny stock are as good as or worse than you winning the lottery. You do not get rich quick in the stock market but you can get rich slowly. Buy solid companies that make money and grow their sales.