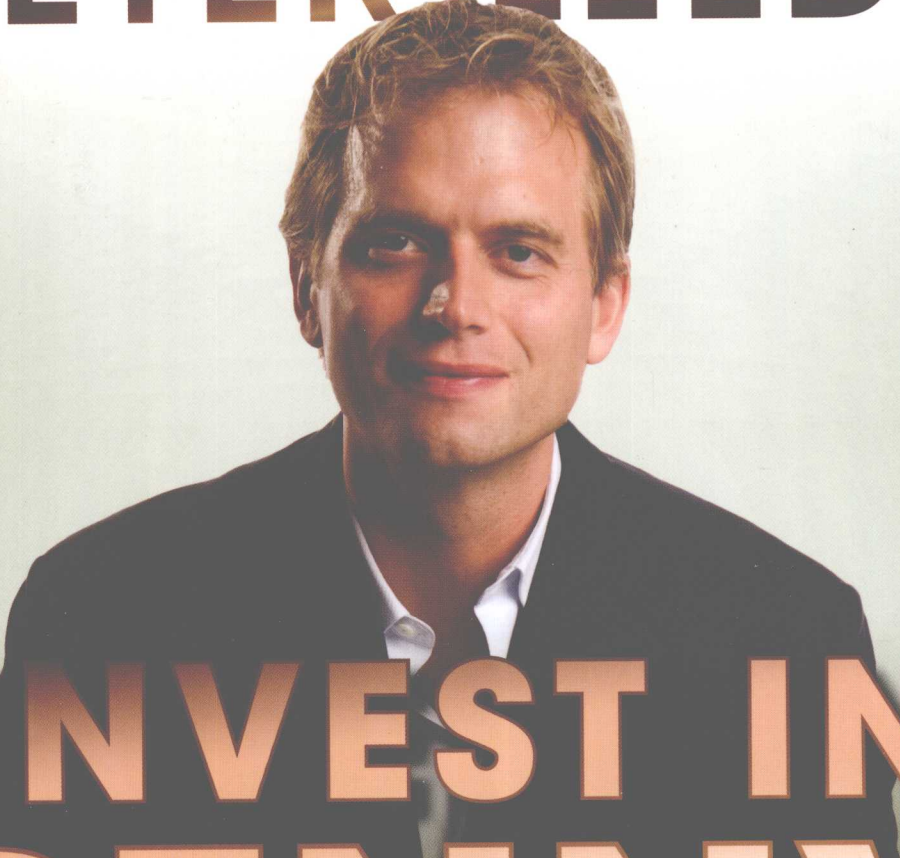


# PETER LEEDS

A portrait of Peter Leeds, a man with light brown hair, wearing a dark suit jacket over a white shirt and a dark tie. He is smiling slightly and looking towards the camera.

# INVEST IN PENNY STOCKS



**GUIDE TO PROFITABLE TRADING**



30807750

# Invest in Stocks

A GUIDE TO PROFITABLE TRADING

Peter Leeds



WILEY

John Wiley & Sons, Inc.

Copyright © 2011 by Peter Leeds. All rights reserved.

Published by John Wiley & Sons, Inc., Hoboken, New Jersey.  
Published simultaneously in Canada.

No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, scanning, or otherwise, except as permitted under Section 107 or 108 of the 1976 United States Copyright Act, without either the prior written permission of the Publisher, or authorization through payment of the appropriate per-copy fee to the Copyright Clearance Center, Inc., 222 Rosewood Drive, Danvers, MA 01923, (978) 750-8400, fax (978) 646-8600, or on the Web at [www.copyright.com](http://www.copyright.com). Requests to the Publisher for permission should be addressed to the Permissions Department, John Wiley & Sons, Inc., 111 River Street, Hoboken, NJ 07030, (201) 748-6011, fax (201) 748-6008, or online at [www.wiley.com/go/permissions](http://www.wiley.com/go/permissions).

**Limit of Liability/Disclaimer of Warranty:** While the publisher and author have used their best efforts in preparing this book, they make no representations or warranties with respect to the accuracy or completeness of the contents of this book and specifically disclaim any implied warranties of merchantability or fitness for a particular purpose. No warranty may be created or extended by sales representatives or written sales materials. The advice and strategies contained herein may not be suitable for your situation. You should consult with a professional where appropriate. Neither the publisher nor author shall be liable for any loss of profit or any other commercial damages, including but not limited to special, incidental, consequential, or other damages.

For general information on our other products and services or for technical support, please contact our Customer Care Department within the United States at (800) 762-2974, outside the United States at (317) 572-3993 or fax (317) 572-4002.

Wiley also publishes its books in a variety of electronic formats. Some content that appears in print may not be available in electronic books. For more information about Wiley products, visit our web site at [www.wiley.com](http://www.wiley.com).

***Library of Congress Cataloging-in-Publication Data:***

Leeds, Peter.

Invest in penny stocks : a guide to profitable trading / Peter Leeds.

p. cm.

Includes index.

ISBN 978-0-470-93218-6 (cloth); ISBN 978-1-118-01327-4 (ebk);

ISBN 978-1-118-01328-1 (ebk); ISBN 978-1-118-01329-8 (ebk)

1. Penny stocks. 2. Investments. I. Title.

HG6041.L443 2011

332.63'22-dc22

2010042168

Printed in the United States of America

10 9 8 7 6 5 4 3 2 1

# Preface

*“Most of the greatest stocks started small.”*

—Peter Leeds

Imagine a company that was debt free, was extremely profitable, and owned an incredible new technology.

What if that investment was trading for pennies? You could invest a small amount, and walk away with a small fortune.

Would you be able to find that company? Thanks to *Invest in Penny Stocks*, now you will.

*Let me* take you on a journey into the world of high-flying penny stocks. Come with me as I walk through every aspect of these exciting investments, from the very beginning.

You will learn:

- How to find the highest quality penny stocks
- Which penny stocks to avoid
- How to trade risk-free
- The best buying prices
- When to take profits

I'll also introduce you to Leeds Analysis. This system allows you to find penny stocks that are about to jump up in price, and helps you get involved before the rest of the investment world.

I've also included many of my favorite Trading Tactics, which could supercharge your investing results just as they have for me.

The appetite for penny stocks is higher than it's ever been. Unfortunately, most people are buying the wrong shares and at

## Preface

the wrong prices. I've written this book to help you invest in penny stocks the right way.

Have fun, and at any point feel free to get in touch with me directly. I can't wait to hear your success stories.

Best wishes,

A stylized, handwritten signature in black ink, consisting of a large, sweeping 'P' followed by a horizontal line that tapers off to the right.

Peter Leeds  
The Penny Stock Professional  
[www.PeterLeeds.com](http://www.PeterLeeds.com)  
1.866.My.Leeds (1.866.695.3337)

## Experience Level Rating System (EL)

*Invest in Penny Stocks* is meant to be a simplified, easy-to-understand book that explains a wide range of topics of varying complexity.

Given the various degrees of skill level of the readership, not all concepts need to be read by everyone. An experienced trader already knows the difference between market and limit orders, whereas that section will be very significant for new investors.

More experienced investors may want to skip some of the simpler sections if they already have an understanding of the topic.

Newer investors may want to leave the more complex sections for last, until they've gotten a grasp of the less-advanced supporting ideas.

### Experience Level 1



**Experience Level 1:** There is no complexity or difficulty to these sections at all.

### Experience Level 2



**Experience Level 2:** Even brand-new investors will have no trouble with these ideas.

### Experience Level 3



**Experience Level 3:** These are very beneficial concepts that are not difficult to understand.

**Experience Level Rating System (EL)**

Experience  
Level 4  
★★★★★

**Experience Level 4:** Even experienced traders will benefit from these sections.

Experience  
Level 5  
★★★★★

**Experience Level 5:** These are the most complicated sections.

# Contents

<b>Preface</b>	<b>vii</b>
<b>Experience Level Rating System (EL)</b>	<b>ix</b>
<b>Chapter 1</b> The Big Business of Penny Stocks <i>Penny Stocks Are Big Business</i>	1
<b>Chapter 2</b> Getting Started in Penny Stocks	15
<b>Chapter 3</b> Avoid Your Rough Start <i>My Rocky Start</i>	25
<b>Chapter 4</b> Leeds Analysis <i>What Leeds Analysis Can Do</i>	51
<b>Chapter 5</b> Third Level Analysis <i>Welcome to Third Level Analysis</i>	59
<b>Chapter 6</b> Fundamental Analysis <i>The Importance of Fundamentals</i>	71
<b>Chapter 7</b> Share Structure <i>Shares—Starting from the Beginning</i>	125



## Contents

<b>Chapter 8</b>	Technical Analysis	139
	<i>Welcome to Technical Analysis</i>	
<b>Conclusion</b>	The Way of Penny Stocks	183
<b>Acknowledgments</b>		<b>187</b>
<b>About the Author</b>		<b>189</b>
<b>Get More from Peter Leeds!</b>		<b>191</b>
<b>Index</b>		<b>193</b>

# CHAPTER 1

## The Big Business of Penny Stocks

### PENNY STOCKS ARE BIG BUSINESS

Experience  
Level I



They may sound small, but penny stocks are big business. The phrase “penny stocks” is one of the most popular financial searches on the Internet. In fact, it gets more searches than terms like “stock picks,” “stock quotes,” “New York Stock Exchange,” or “stock broker.”

This translates into tens of millions of investors in America, and millions more worldwide, actively searching for information and guidance on penny stocks. Unfortunately, hidden motivations abound, and misinformation outweighs the amount of proper analysis. As the Penny Stock Professional, I am actively working to change this state of affairs.

My team and I help people avoid some of the common dangers, and find the best penny stock companies with the greatest upside. You’ll find that it is quite simple—it’s extremely lucrative to get involved with the best 5 percent of penny stocks. These companies will have:

- Strong management teams
- Good upside potential
- Proven revenues

## Invest in Penny Stocks

- Patented technologies
- Solid financial trends

Finding and investing in the best penny stocks is one of the most lucrative ways to make money on the stock market, or to make money at anything for that matter.

Experience  
Level I



### Broad Appeal of Penny Stocks

I love the broad appeal of penny stocks. Unlike most investment vehicles, which get the attention only of specific types of people, penny stocks seem to generate interest among all types of investors, of all skill levels and all financial situations.

If you are a beginner, you'll learn about trading quite quickly, because penny stocks move faster and are more volatile than more conventional investments. Your learning curve will be much shorter than if you just put money into IBM and let it sit there for a year or two.

If you have limited funds to invest, penny stocks give you the potential of actually making something out of your money. A \$1,000 investment can multiply many times over, compared to putting that cash into a slow-moving blue chip or a super-safe bond, even if you let it sit there for years and years.

If you are an experienced trader, penny stocks are appropriate for a portion of your portfolio because they add excitement and big-gain potential to your investments.

If you know what to look for, and thus get involved with really high-quality companies, it can translate into massive gains. So many of these high-quality penny stocks are trading for pennies a share simply because they are:

- Overlooked
- Undiscovered
- Unfairly valued
- Sold off in sympathy with a sector or the overall market

## The Big Business of Penny Stocks

Look, I've been involved with investing from all angles, and still am, including:

- Real estate
- Derivatives/options
- Penny stocks
- Large-cap stocks

Based on extensive personal experience, and the many years of analysis/research/editing I've done at PeterLeeds.com, I've come to the rock-solid conclusion that:

**Penny stocks are the most lucrative and realistic method for building wealth that I've encountered.**

With penny stocks, gains come more rapidly and the returns are greater. What's the point of putting \$500 on some massive company, and a year later you've made 10 or 15 percent on your money? And that's considered a good return? *Hello, 45 bucks*—big deal!

All you've done is tied up your money for a year to make an insignificant profit (or maybe even took a loss) and given up the opportunity to have that \$500 potentially do something more. Maybe something *much* more.

Especially if you have a small portfolio, the gains you will probably get from blue-chip stocks are going to seem insignificant. They aren't going to change your life. There's no excitement in it.

Yet people are afraid of penny stocks, and might argue that blue-chip stocks, like GM and IBM and Exxon, are better investments because they're based on better companies. Yes, blue chips are a lot better than 95 percent of the penny stocks out there. However, in terms of upside potential, growth of your investment, and life-changing profits, the 5 percent of penny stocks that make the Leeds Analysis cut represent far more compelling investments, and very often

## Invest in Penny Stocks

are far superior companies. They're just smaller. Much smaller. And the best part is once you find these high-quality penny stocks, you get to pick them up for pennies a share!

As the Penny Stock Professional, my job is to help steer you toward the 5 percent of penny stocks that may dramatically outperform every other investment option that's out there, including so-called "safe" blue chips.

Experience  
Level I



### The 5 Percent Rule

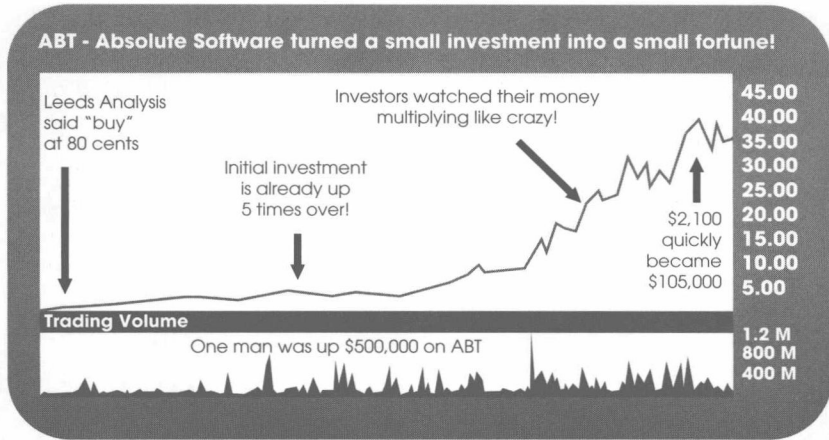
Only about 5 percent of penny stocks pass Leeds Analysis. Those that pass the test are:

- Significantly more likely to outperform the rest
- Fundamentally very strong
- Less likely to suffer downside price moves
- More likely to enjoy massive upside potential

Some of the criteria we look for with Leeds Analysis include, but are not limited to:

- Strong management teams
- A track record of gains in revenues
- Accelerating increases in earnings
- High barriers to entry to the industry
- Company approaching profitability or already profitable
- Low or no debt load
- Patented technologies and/or strong intellectual property rights
- Involvement in a growing industry or market
- Strong and long-term competitive advantages
- Superior and effective branding, positioning, and marketing

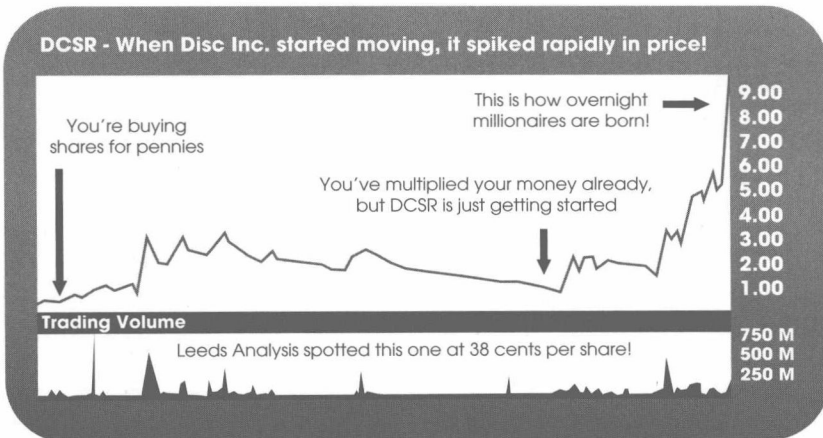
## The Big Business of Penny Stocks



**Figure 1.1 Absolute Software Trading**

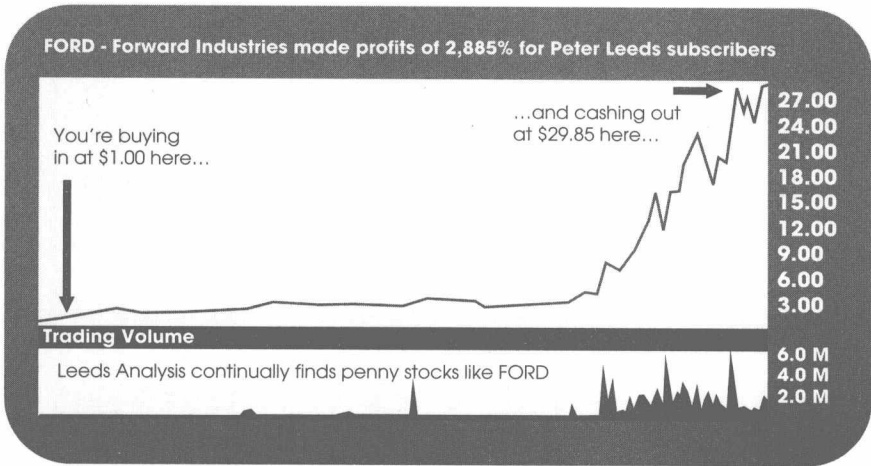
Subscribers to Peter Leeds may remember some of the homeruns we've hit using Leeds Analysis, like Absolute Software, which went from \$0.80 to \$40.64! (split adjusted). (See Figure 1.1.)

Another great example, Disc Inc., spiked from only \$0.38 per share all the way up to \$9.93 for a 2,500 percent gain! (See Figure 1.2.)



**Figure 1.2 Disc Inc. Trading**

## Invest in Penny Stocks



**Figure 1.3 Forward Industries Trading**

Or take Forward Industries, which we revealed to Peter Leeds subscribers when it was trading at \$1.00, before it absolutely exploded to \$29.85 for a total gain of 2,885 percent! (See Figure 1.3.)

You wouldn't see gains like that in IBM or Exxon even if you waited a lifetime!

Experience  
Level 3



### Trading Tactics: Averaging Down

*Averaging down* means buying more shares of a stock you already own if the price has dropped since you originally bought it. This tactic lowers your average price paid per share, but increases your exposure.

For example, you buy 2,000 shares at \$2.00, and weeks later the stock drops to \$1.00. If you buy another 2,000 shares at \$1.00, your average price per share for the 4,000 units is now \$1.50. In other words, if the shares make it back to \$1.50, you are breaking even overall. (However, you now have an additional \$2,000 invested.)

I have personally seen people average all the way down, with three or four or five new buy orders over months or years. They lost their shirts on stocks like Nortel and some of the Internet high-flyers.

### Trading Tactics: Averaging Down (*Continued*)

Investors usually average down to make up for a bad trading decision. This can get pretty ugly when a stock is nose-diving toward zero, as they throw good money after bad.

I don't support the concept of averaging down. In fact, if you abide by the methodology of *limiting losses* that we describe later, you won't be in a position where you'd need to average down, because you already would have jumped from that sinking ship.

Bad investors average down, buying more shares of a falling stock to decrease the average price per share they've paid. This strategy is hardly ever effective. In addition, it magnifies your losses if the stock keeps dropping. Nevertheless, individual investors seem to continually engage in this practice.

When I trade, I'm much more likely to *average up*. I'll acquire more shares as the stock price climbs and the momentum of the company rises. The increasing share price is a confirmation of the success of my original analysis, and the company's progress, rather than a profit-taking opportunity.

Experience  
Level I



### Penny Stock Phobia

People have a phobia of penny stocks. This fear has been instilled in them because they hear a lot of bad stories about people who have been “swindled,” “ripped off,” or otherwise “scammed.” Other people may have had personal experiences, or heard stories of others that ended with lost money.

These may have been real experiences, and real stories, and that doesn't surprise me at all. I am telling you that **most people who trade penny stocks lose money**. This is almost always because they invest:

- For the wrong reasons
- At the wrong time
- (Most notably) in the wrong companies



## Invest in Penny Stocks

For every nine people losing \$1 on the market, the tenth person is making \$9. That tenth person could be you, if you learn to invest:

- For the right reasons
- At the right time
- (Most notably) in the right companies

This book, with its explanation of Leeds Analysis, will help you do that. Not everyone is successful with it, and penny stocks can go up or down in price. However, I do have a track record of people whom I don't even know, who've never met me, sending me pictures of boats and cars and other things they bought with money they made trading penny stocks based on my guidance.

Some of these people have followed my picks at my online newsletter, *Peter Leeds Penny Stocks*. Others have read my earlier book, *Understanding Penny Stocks*. However they came to their penny stock successes, each one of them proves even more that Leeds Analysis works and can give investors of all experience levels, and from all walks of life, an unfair financial advantage.

Experience  
Level I



### Penny Stocks May Not Be for You

Penny stocks might not be an appropriate investment vehicle for you, based on your experience level, risk tolerance, or personal investment strategy.

It's important that you know when *not* to trade penny stocks:

- You're losing sleep at night because you're stressed out.
- You wind up fighting with your spouse about it.
- You think about it so much that you aren't paying attention to your family.
- Your mind wanders while you're at work.

If you find yourself thinking about your penny stock investments too frequently, this type of investing may not be right for