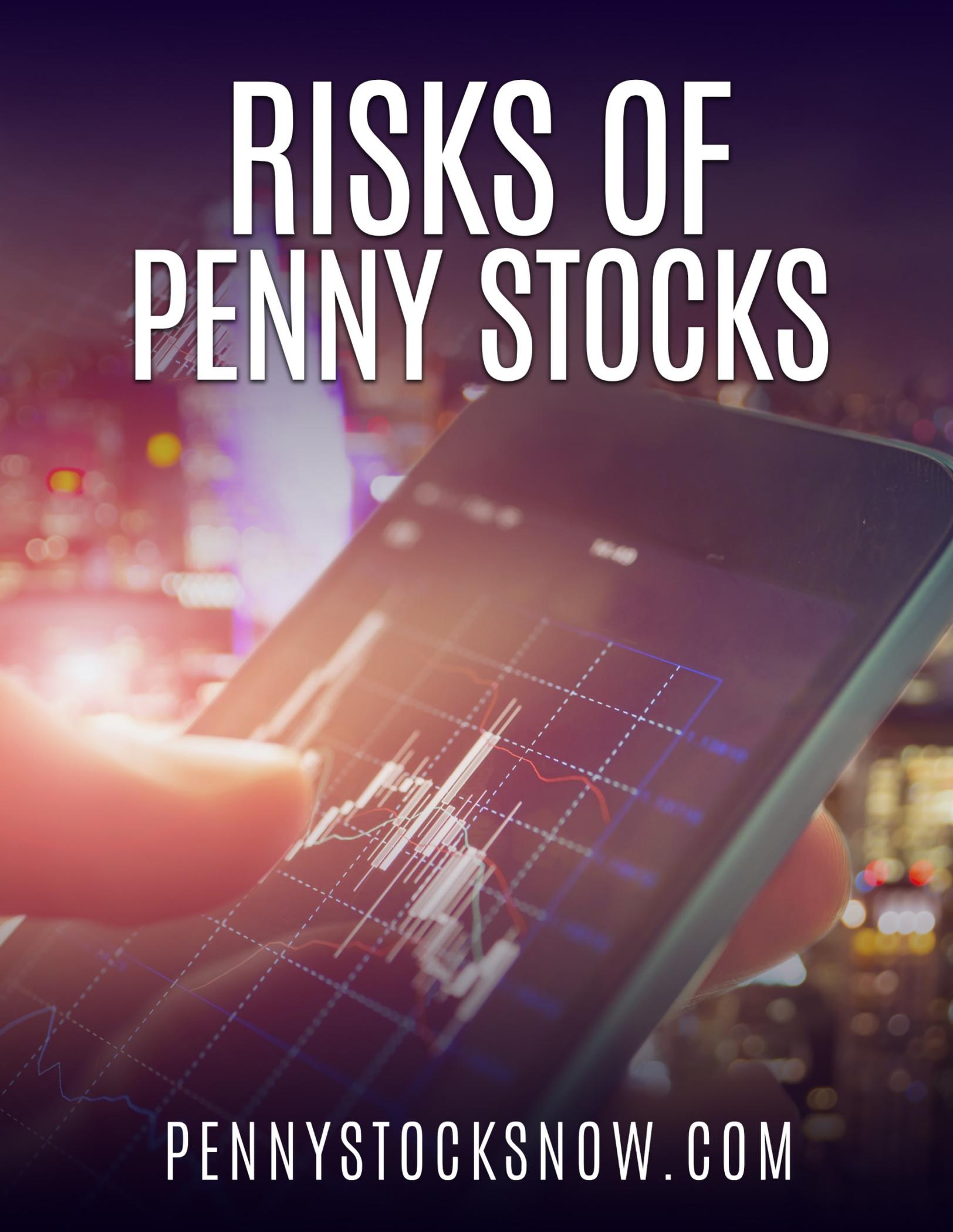


# RISKS OF PENNY STOCKS

A hand is holding a smartphone, which displays a stock market chart. The chart features a grid and several lines in red, green, and blue, representing different data series. The background is a blurred cityscape at night with bokeh lights.

[PENNYSTOCKSNOW.COM](http://PENNYSTOCKSNOW.COM)

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## INTRODUCTION



**P**enny stocks, like any investment, are inherently a gamble. It's always good to know what you're getting yourself into before making any decision involving your money. With the following articles, you will be equipped with a thorough understanding of the risks and potential rewards of penny stock investment. Use this as a starting point so that you can make a sound and informed decision.

## PENNY STOCKS RISKS

The first point to remember is that large market cap stocks are likely to be registered on a national stock exchange such as the NASDAQ. The reason for this is that when large volumes and amounts are involved, which by definition is true for a large market cap stock, it is extremely difficult to get all that trading done outside of a stock exchange. Although it is theoretically possible for a large stock to be traded on Pink Sheets and OTCBB, it will be difficult to sustain high volumes on these platforms because many people who trade on recognized stock exchanges may not trade in these stocks, particularly in large volumes.

Registration with a stock exchange involves a number of formalities that have to be complied with. These formalities are aimed at making the whole process more transparent so that the investor has access to relevant information. The availability of information helps you to verify the facts, and also to check on the soundness of the company you're investing in more thoroughly. When these are missing, you are operating under insufficient information, and therefore are exposed to higher risk. Thus, stock exchange registration by itself reduces the risk involved in investment.

Apart from this, there are other reasons why a penny stock is more risky than large market cap stocks.

Stocks registered with a recognized stock exchange are required to maintain minimum standards. These include requirements such as:

The minimum number of publicly traded shares – this should be 1.1 million shares in the case of the NASDAQ. The publicly held shares should also be at a minimum of 10% of the total shares of the company.

- Minimum Shareholder Equity
- Minimum Operating Income
- Availability of Market Makers

The specified minimum amount should be available in assets, total revenue, and listed securities.

There are many such requirements that a company has to meet in order to stay registered with the stock exchange. Essentially, these requirements ensure that the stocks are widely held, and the company is running properly. These safeguards make the listed stocks less risky than unlisted ones, which are not required to follow any such requirements.

Penny stocks also generally do not have any history behind them, and suffer from a low-liquidity position. They have less room to maneuver. Because they are more risky and less preferred, they will also have difficulty raising money for new ventures or expansion. In some cases they may have difficulty even raising money for operations. Companies generally raise money by borrowing or generating new capital. The amount that can be borrowed is limited for a given equity base. Suppose the company has \$100,000 in capital. Lenders may be willing to lend \$200,000 or some such amount. If the company wants to borrow more money, it will have to first increase its capital base. This is more difficult in the case of penny stocks.

Finally, it might not be as easy to find buyers in the case of penny stocks, particularly if you have a large number of them. This will affect you're their liquidity in the short term, and also make it difficult to offload these stocks if the going is not too good.

These are some of the reasons why a penny stock is considered more risky; however, penny stocks have their brighter side too. They can give you much higher returns. We'll explore how this is possible more thoroughly in other articles.

# RISKS IN PENNY STOCK INVESTMENTS

## PENNY STOCKS

There is always a risk factor associated with every stock; however, being traded at few counters, penny stocks are little more risky. The risk factor increases if you avoid certain necessary precautions.

## RISKS

Investing in penny stocks is highly risky due to various factors. Some of the common risks are as given below:

- There is little reliable and verifiable information available for penny stocks. The information available comes either from stockbrokers or through the agents of the companies offering penny stocks. The seller or broker who sells the penny stocks might get a kickback from the company for selling the shares, and therefore has an interest in misleading investors. It is therefore necessary for the investor to perform detailed research before investing in penny stocks.
- It is sometimes difficult to find buyers for specific penny stocks you have purchased from the broker. Even the same broker may not be interested in repurchasing the stocks from you.
- Sometimes companies having no financial assets or available financial history come into the market and collect money from investors. Therefore, before investing in penny stocks, you should study the company offering the penny stocks. You should study the prospectus of the company very carefully, and should see whether the share prices of the stocks are justified. Some dealers may inflate the stock prices fraudulently.
- You should know your broker, as he/she is the main person with whom you are dealing. Ask for information about them from other dealers and customers. You should seek complete market information from your broker, including the difference in bid and sale prices of the stocks. Ask them to provide their suggestions in writing, and always seek a second opinion about the recommendations they've made.

- You should know the nature of the stocks being sold. Many times the initial public offers are more risky than others. You should invest your money only once you're completely satisfied with the various financial conditions and assets of the company. You risk losing the majority of your investment, or even your entire investment, in a specific penny stock if a careful and wise decision is not made.
- Before making an investment in a specific penny stock, you should ask about your broker's history, including any disciplinary action taken against him or her from the NASD. You can also seek additional information about your broker from your state office of the SEC (Securities and Exchange Commission). If you believe you have become a victim of fraud, federal laws have provisions of rights and remedies available to you. You can file a complaint at the Securities and Exchange Commission.

## ARE PENNY STOCKS TOO RISKY



**T**he term “high-risk investment” sounds scary, doesn’t it? This phrase alone is enough to put many investors off. After all, no one wants to take a risk. The trouble with buying any kind of stock (high-risk or not) is that it’s always a gamble. But how do you decide if a stock is just too high-risk for you?

There is a lot of information floating around on the internet about penny stocks. Almost everyone with an e-mail address has gotten spam at one time or another, touting a penny stock as the next great investment. Sadly, much of this information is geared toward scamming you in some form or fashion, and it’s likely that you will lose all of the money that you put into the stocks advertised through spam e-mails. That doesn’t mean that all penny stocks are bad deals, though; that you will lose money every time, or that every single penny stock is a scam. In fact, far from it. Some penny stocks might be very good investments, indeed.

Penny stocks are affordably priced shares in companies or businesses that are considered “small,” compared to large corporations. There are not many shareholders involved in penny stocks, making them less “liquid” than many other types of stock.

The goal of investing in penny stocks is to part with very little money initially to enjoy a big return later on. Does it work this way? Certainly it does sometimes, just not all

the time. For those who know what they're doing when they're investing in penny stocks, they can be a great investment tool. Mastering the art of trading in penny stocks can be tricky, however.

For one thing, penny stocks don't trade on the major stock exchanges. Instead, penny stocks are known as "over-the-counter" investments, listed on Pink Sheets and the OTCBB. This makes penny stocks rather unique and somewhat harder to find for many investors. Penny stocks also don't trade very regularly, so sometimes investors have very little time to act. Because trading does not occur often with penny stocks, there is always the fear of being unable to sell one's shares of penny stocks, and winding up with a bad investment. This is all part of the risk of trading in penny stocks, and many investors find this makes the game all the more challenging. When you invest in penny stocks, you should receive monthly updates that let you know how your stock is doing.

So, are penny stocks too risky? The only person who can decide that is you. Some investors find that penny stocks aren't too risky, while others do. It's all a question of how much you want to gamble with your money, how much you know about penny stocks, and how lucky you feel. If you think investing your money in penny stocks is a good idea, then it probably is. Everyone has a different opinion on penny stocks. Learn more about them, and form your own.

## PENNY STOCKS - IS IT A GOOD IDEA TO INVEST?



There are so many different stock options out there that it's almost impossible to keep them all straight. When investors want to start out somewhat small in the stock market, they may hear that penny stocks are a good investment. But are they?

It's true that, for those investors wanting to put in only a little bit of their money, penny stocks are a good way to go. Shares are often bought for fairly cheap, and there is the hope of getting a big return for that small initial investment. This is why some investors are drawn to penny stocks. A small investment, a big return...it sounds perfect, right?

This does not mean that it's always a good idea to invest in penny stocks. Yes, there is some potential to enjoy a large return, but penny stocks aren't labeled a "high-risk investment" for nothing. There is also the potential that investors will lose their capital, their whole investment in fact. Why?

It's because penny stocks trade very infrequently, and they don't trade through the large and well-known stock exchange systems. Penny stocks are traded through different markets, making it harder to buy and sell them.

When a stock is hard to sell, that often means that investors may get “stuck” with their stock – and that’s a position many don’t wish to be in. This is why penny stocks are risky, and a little dangerous.

While some investors may consider this type of trading exciting, it turns others away from penny stocks completely. How do you know when it’s a good idea to invest in penny stocks? The only person who can decide what to do with your money is you. When you invest in penny stocks, you get very regular “progress reports” from your broker, so you know exactly how your stock is doing. This is the law, so if you invest and don’t get your reports then, something is seriously wrong with your investment. You should get regular updates regarding your investment, and when you invest in penny stocks you’ll want to watch them carefully. Because they trade so infrequently, investors in penny stocks have to be ready to make a move at a moment’s notice. Missing the window of opportunity could mean missing out on a big pay-off.

If you like the risk and want to take a chance on a big return while putting up only a small initial investment, then penny stocks may be the right choice for you. There are some internet scams concerning penny stocks, and many people receive spam e-mails regarding penny stock investments.

These e-mails are going to try to cheat you out of your money, so don’t trust the penny stocks you see advertised in this way. There are some totally legitimate penny stocks available to investors, so don’t let these spamming scams stop you. Take a look at different penny stock options on your own before deciding what to do. If you feel comfortable with your chances, and like what you hear about penny stocks, then it may be a good idea for you to invest.

Just remember, you’re the only one who can make that decision. If you like the sound of penny stocks, then find out more. But if you don’t want to take the chance, then you may not want to play the penny stock game at all.

## ARE PENNY STOCKS DANGEROUS



If you've heard anything about penny stocks, it's probably that they're a bad investment or an internet scam. There's a lot of misleading information out there concerning penny stocks, and the bad rap has made many investors shy away from using penny stocks at all. However, are penny stocks dangerous to investors?

Penny stocks have a bad reputation for a number of reasons, not the least of which is that penny stocks are often used as a part of internet e-mail scams. Nearly everyone has been exposed to these e-mails, which claim to offer cheap penny stocks that will bring a large return. In truth, this is a scam, and will only cause you to lose your money.

This is one of the reasons that many try not to invest in penny stocks, but penny stocks are also said to be a "high-risk" investment, which turns many people away from investing. After all, the words "high-risk" sound pretty scary...especially when it's your money, right? High-risk means there's a good possibility of losing money, and no one wants that.

There are some advantages to penny stocks, however, and they can bring in a good return. In fact, penny stocks can be incredibly lucrative, and many investors choose to take the risk on penny stocks in hopes of getting a very large profit in the end. With penny stocks, investors often have to act quickly, as penny stocks trade infrequently.

This infrequent trading is one of the reasons that penny stocks are considered to be high-risk investments. It's hard to sell stock that doesn't trade very often. In the U.S., the term "penny stocks" is often applied to those publicly-traded shares that do not go through the major stock exchanges (NYSE, NASDAQ, or AMEX, for instance). Trading in an unsure market makes many investors leery of trying penny stocks out for themselves.

But for those who know how to finesse their stocks, penny stocks can bring in good returns, and this is what makes many investors bold enough to try them out. Are they risky? Yes. Are they unsafe? Not really – unless you invest in penny stocks that you find advertised in your e-mail. Don't trust these spam messages. Find your own penny stocks to invest in.

There are plenty of good penny stocks out there to invest in. It's just a matter of finding them. Check business journals, and talk to your stock broker if you have one. These are both good ways to find out about new penny stocks. Penny stocks are often cheaply bought, and in the best-case scenario, are then sold for great profit. It's this hope of a large return that keeps many investors coming back for more. When such a prize awaits, many are willing to take those high risks.

Only you can decide if investing in penny stocks is right for you. Look into the stocks you want to buy before purchase, and make the decision for yourself – don't only rely on others. When you decide your own financial fate, you enjoy the returns that much more.