

# **Small Cap Stock Tips: 5 Small Cap Stock Tips for Mammoth Profits**

**How to Maximize Returns  
by Trading Penny Stocks**

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## **Small Cap Stock Tips: Introduction**

I know you must be thinking that the title of this report contradicts itself. I suggest that with 5 small cap stock tips, you will realize massive returns. While it is perfectly clear to me exactly how this is possible, I can understand your skepticism.

Many investors write off small cap stocks as worthless. They would look at my small cap stock tips, laugh, and move on to the larger blue chips. Let them laugh now, because in the end it will be me (and hopefully you) who will be laughing all the way to the bank.

You won't be able to follow my small cap stock tips without fully understanding exactly what a small cap stock is. Small cap stocks are exactly that; shares of smaller companies. It is also important to note that "cap" refers to the market capitalization of a company, essentially its dollar value in the market. Small caps are companies whose market capitalization ranges from \$300 million to \$2 billion.

The overwhelming belief among investors is that small cap stocks are riskier than large cap stocks. I think that once you read my small cap stock tips, you will see that is not always the case, especially if you are a smart investor. In this report, I am going to focus specifically on penny stocks.

See, when you watch the stock market analysts on CNBC and CNN, which companies do you think they report on? These popular networks direct their news toward institutional investors. Let's face it; hedge funds, mutual funds, and large banks are responsible for the majority of trading anyway.

Well, I'll let the big cable networks cater to the Warren Buffetts of the world. I personally get a certain thrill out of finding the penny stock gems. After reading the small cap stock tips presented in this report, you will be equipped to diversify your portfolio and in turn, amplify your profit investments.

## Small Cap Stock Tips #1: Turn Pennies into Profits

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Out of all the small cap stock tips in this report, this is probably the most important tip to take away. While it seems like it would produce only minimal profits, trading penny stocks can actually be quite a lucrative venture.



Penny stocks are a subcategory of small cap stocks that are priced at \$5 or under. Trading penny stocks is one of the most important small cap stock tips because in many cases, these are companies who have flown under the investor radar but have tremendous growth potential.

I debated back and forth about whether or not to include trading penny stocks as one of my small cap stock tips because of the potentially high risk factor. In the end, however, I decided that the upside potential of penny stocks is too great to be left out of this report.

Before I elaborate on the advantages of trading penny stocks, it is important to go over what constitutes a penny stock. You don't expect me to share my small cap stock tips without giving you the facts behind them, do you?

Like I said earlier, penny stocks are stocks of smaller companies that trade at \$5 or under. Don't get confused, however, if the stock price of a larger company falls below \$5 for whatever reason. Remember, these

labels all have to do with a company's market capitalization. So, if the stock price of a large cap company falls within that penny stock price range, it is not considered a penny stock. Alright, enough talk about large caps. This is a report about small cap stock tips, after all.

It is possible to make a lot of money trading penny stocks, but you have to be willing to put in a lot of effort. I know ordinary people who have applied my small cap stock tips to their overall trading strategy and turned their small profits into major profits.

I am telling you that trading penny stocks is profitable despite the risk. But don't put this report away just yet! You will need to read my other small cap stock tips in order to truly succeed at trading penny stocks. In my next four small cap stock tips, you will learn everything you need to know about how to master trading penny stocks.



## **Small Cap Stock Tips #2: Stick to the Rules of Trading Penny Stocks**

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There are rules that apply to all forms of investing. How well you fare in the stock market often depends on how much you stick to the rules versus how often you ignore the rules and go out on your own. My small cap stock tips are designed to help you. Whether or not you choose to follow the rules I give you is completely up to you, but I highly recommend that you do.

No trader can honestly say that penny stocks aren't a huge source for profits. I know so many people who practically make a second income off of trading penny stocks. If you follow my small cap stock tips. Everyone has to start somewhere though, so before you open your etrade account, make sure you know the basic rules of trading penny stocks.

I think that the best advice I can give to new investors is to avoid the temptation to follow the crowd or get drawn in by false promises of get rich quick. Trading is a highly psychological field. The idea of making money sometimes impedes our ability to think clearly.

One of the reasons I am sharing these small cap stock tips with you is to hopefully prevent you from falling into the same traps that other new investors have.

When I talk about there being rules to trading penny stocks, I am talking more about guidelines that smart traders should follow in order to bank maximum profits. I could fit so many small cap stock tips into this report, but so that I don't overwhelm you, I am going to focus on the most important ones.

When starting to trade penny stocks, or even if you are a pro, there is a simple rule of thumb that you can follow. Basically if a trade seems too easy, then it is not the right trade. It's the 21<sup>st</sup> century and I think it is

safe to say that we live in a culture that it always looking for the “catch.” If something seems too good to be true, then it probably is. I hope that you are writing these small cap stock tips down, because you will not want to forget them. By choosing the more challenging trade and not following the crowd, you will come out ahead.

When trading penny stocks, it is also extremely important to balance the technical side of the market with the emotional element of trading. Most small cap stock tips will only focus on the technical side of the trade, but I understand that you are human and will succumb to trading on emotion, especially if the stakes are high.

I always let the guys who can't control their emotions drive the markets, then I swoop in and make an informed, planned, and controlled trade.



How many small cap stock tips have you read that tell you to avoid playing the downside of the market? Well, that is the worst tip I have ever heard! There is a lot of money to make by playing the downside, if you have the discipline to exit the trade at the right time.

It's simple really. Never ever hold onto or add to a losing position. If you do, you will lose your initial investment and then some. If your investment is showing increasing signs of weakness, get out and get out quickly. When trading penny stocks, your fortune can flip at the drop of a hat, if you aren't paying close enough attention.

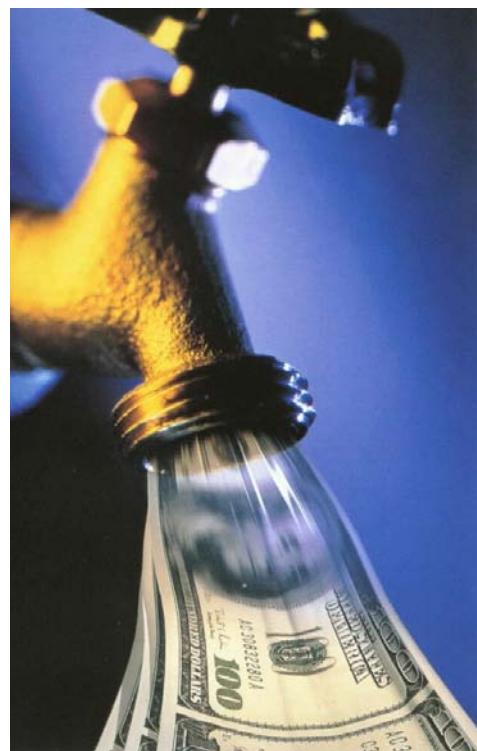
## Small Cap Stock Tips #3: A Company's Balance Sheet Reveals All

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So you feel ready to start trading penny stocks, but you aren't sure how to choose companies that have profit potential. Well, forget about GE and Walmart. Remember, penny stocks are shares of smaller companies. The problem with this is that you probably haven't heard of these companies.

One of my best small cap stock tips is to thoroughly research a small cap company before you decide to invest in it. Before you invest in any company there are five figures on the balance sheet that you need to scrutinize: revenue, earnings, debt, assets, and liabilities.

If you understand how to interpret what these numbers mean both for the current time and for the future, you will be able to determine right off the bat if you are making a smart investment. I like to make my small cap stock tips easy to understand. I am going to break out these five figures and tell you exactly what you need to look for.



**Revenue:** Simply stated, the revenue is the actual earnings of a company. Some penny stock companies are actually still very much in a developmental phase and therefore have a little trouble raising revenue. When companies are at this stage their future is still up in the air. Focus more on the products or services they have in development to gauge their potential value.

It is when a company has been around for awhile and is still having trouble generating revenue that you should be worried. When you

review the revenue history of a penny stock company, keep these small cap stock tips in mind: keep an eye on new companies to make sure their revenues match their growth. Also, keep a close eye on big jumps in the revenue of established small caps.

**Earnings:** Here's one of my favorite small cap stock tips that I love. You see, revenues are good indicators of a company's earnings. Once a company hits that stride of positive income, the stock price will likely shoot up as investors recognize that the company has made it. Small companies with positive earnings combined with substantial external funding are not as risky as companies whose cash position is relatively small. Small companies rely on positive earnings to fund everyday operations and set themselves up for growth opportunities.

**Debt:** It is inevitable for a brand new company to incur some initial start-up debt. The small cap stock tips to keep in mind here are that while initial debt is okay, it is important to track how quickly the company is able to reverse their initial debt. What you want to look for is a small cap company whose debt stops growing once they are established enough.

All companies, large or small, have one objective: making money. Obviously, no business owner wants to be in debt. Moreover, no business owner can sustain being in the negative for very long. If you see increasing debt in a small cap, stay away.

**Assets:** If you want to get an overall idea of the health of a company, look in the assets column on the balance sheet. Assets of a business include anything that can be assigned a cash value. The assets of a company are measured up against its operating expenses to determine their ability to cover their expenses. If a company's assets add up to \$1 million and their expenses add up \$100,000, they are clearly able to cover their expenses...for awhile! I like to simplify my small cap stock

tips for you. So, when it comes to assets, here is the deal: the more the better.

**Liabilities:** While the assets of a company represent its cash value, liabilities are anything that cost the company money. So, if you want a company with a lot of assets, it makes sense that you should look for a company with very few liabilities. As one of my small cap stock tips, I say that you should find companies with a 1:2 asset to liability ratio. If an established company has a lot of liabilities, you will want to stay away. New companies are a little different as liabilities are a part of any new business.

Most small cap stock tips will not insist that you dig deep into a company's financial history, but trust me. Scrutinizing a company's balance sheet it is the only way you will determine if your investment is a sound one. I know that you will be eager to jump right in and start making money, but you have to exercise patience and discipline before you invest. Otherwise, you will end up with a losing investment. Like I said earlier, there is plenty of money to be made trading penny stocks. You just have to identify the right opportunities, develop a trading plan, and most importantly stick to your plan.



## **Small Cap Stock Tips #4: Develop a Strategy and Stick to it**

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In order to really capitalize from trading penny stocks it is a good idea to develop a solid trading plan that you do not stray away from. Are you noticing a theme in all of my small cap stock tips? The common thread is to develop a system. You will be sorry if you don't. The last 3 small cap stock tips in this report apply to everyone, but developing a trading plan is unique to each individual.

So instead of giving you a list of possible trading plans you can use to effectively trade penny stocks, I am just going to give you an example of my personal plan. Once you read all of my small cap stock tips, you should be able to build a plan that fits your needs as a trader.

I wake up at 6am every single day ready to scan all of the breaking stock market news. By the time the opening bell rings at 9:30, I know every piece of important news that will impact my trades for the day. In order to get my penny stock trades in order, I make sure that I read press releases for Over the Counter stocks to see what small cap stock tips are in the news.

Once I decipher which press releases offer the most promising penny stock news, I pick out 3 to 5 stocks and monitor their activity prior to the opening bell. Meanwhile, I pour myself a cup of coffee and start researching the companies whose stocks I have chosen to watch.

Once you become a little more experienced, you will be able to know right off the bat if the company is worth researching further. I personally keep my small cap stock tips on a post-it note to keep myself in check.

At the stroke of 9:30, I am fully prepared to execute my trades based on careful research and planning. My decisions are not arbitrary. I develop a quick plan and then I put it into action with confidence. By 10:30 I have a pretty good idea if the stocks I invested in are going to perform. By that time, the other guys have finally woken up and are

scanning the press releases that are already in my recycling bin. If I picked the winning stocks after reading the press releases, chances are other people did as well. Once other investors start driving up the stock price, you have to decide at what price you will sell your shares.

While this point did make my overall small cap stock tips, it is an important part of your trading plan. You have to decide on a firm price at which you will sell the stock in order to profit. Never ever hold out waiting for a higher price. Stock prices can change instantly, and you don't want to find yourself in a questionable situation.



Discipline is essential when trading any stocks, but it is especially crucial when trading penny stocks. Remember what I said in my previous small cap stock tips about emotional trading. Don't fall into that trap. My next tip will cover traps to avoid as a beginner investor.

Okay, back to my trading plan. So once the stocks I invested in reach my desired price, I sell. I don't even think twice about it. Remember, the goal here is to make money off of sound investments, not to gamble like we're in Vegas.

If you forget the other small cap stock tips in this report, promise me that you will not forget this one. Stick to your trading plan.

## **Small Cap Stock Tips #5: Avoid the Traps of Beginner Investors**

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Even if you are a seasoned trader, it is always wise to keep yourself in check. Trading involves emotions, psychology, greed, and ego. All of these human feelings can influence trades if you let them. Sometimes the influence can be positive, but nine times out of ten the result will be negative if you let emotions control your trades.

If you trade over the course of a long period of time, chances are you will fall into the common traps of trading, at least once or twice. I know I have let myself go a couple of times. Luckily for me, the losses I incurred were limited, but I know some guys who have lost their entire nest egg. Trust me, it's not worth it. This is why I work hard to give you these small cap stock tips.

If you are a beginner, I want you to be well equipped to enter the trading world. If you are a seasoned trader, I want to make sure that you constantly remind yourself of the traps to avoid.

One of the biggest mistakes made by traders of all levels is getting caught up in the "story" of a company or stock. This is especially dangerous when you are dealing with small cap companies since trading penny stocks tends to be more of a short term investing tool.

If a company is getting a lot of attention in the news, investors are most likely going to flock towards it. But I assure you, they will exit as quickly as they enter. Carry my small cap stock tips with you at all times if you have to! Don't fall into this trap!

Unless you are a master at picking stocks, don't just think you can randomly pluck a winning stock out of nowhere. Picking a stock is not like walking up to a slot machine in a casino. Novice traders or ignorant onlookers think that you can only win in the stock market if you are really lucky.

As you can see from reading my small cap stock tips, that is not the case at all! Expert traders spend the majority of their time analyzing price charts and graphs. I look at charts so much, I even see them in my sleep. The market doesn't fluctuate randomly. There are reasons behind every price shift, no matter how minor it is.

Don't fall into the trap of treating the stock market like its one big game of Russian roulette. There are plenty of resources out there for you to continue to learn small cap stock tips. What I am presenting here is only the tip of the iceberg. If you want to succeed at trading penny stocks you will eventually have to learn how read charts and graphs. Don't worry, there is a lot to learn, but you'll get there. This stuff takes time to learn. Learning is half the investment.

Everyone likes to think that they have the next big trade. If you go online, you will find thousands of penny stock blogs filled with losers claiming they have a winning stock pick. You don't know these guys. They are complete strangers. Anyone can go on a blog and say that they have received info on a stock. Listen -if someone really has info about a stock, they aren't going to post it all over the internet.



Protect yourself. Don't cut corners. It pays to follow small cap stock tips and make your own decisions. It is tempting to follow the stock recommendation on a message board, but remember in one of my previous small cap stock tips I said to avoid the trade that looks too easy. This is exactly what I am talking about.

I have said it over and over again, but I will say it again because it applies to all of my small cap stock tips: never trade based on emotions. This is the biggest trap that investors fall into. Your emotions will not tell you when to buy or sell. Only experience and skill will lead you to profits in penny stock trading.

## Small Cap Stock Tips: Conclusion

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So we've reached the end of my small cap stock tips. Are you an expert yet? If you follow the advice in this report, you will be well on your way to enjoying mammoth profits from trading penny stocks. I am not sure what your perception of penny stocks was prior to reading this article. If you are like most people I've talked to, you probably thought that penny stocks were a waste of your time and money.

Trading penny stocks does require a little more concentrated effort than say, buying and holding. If you are looking for more successful short term strategies in the stock market, I hope these small cap stock tips will help you grow your portfolio.

I personally prefer short term plays to long term investing. Sure, I like the pressure and the trill of it all...I am a risk taker after all. Mostly, I like the massive profit potential created by smart short term strategies. In case you don't know, I have made the majority of my fortune by executing very successful swing trades.

Many experts will tell you to stay away from penny stocks. Honestly, I think that is the worst advice ever! I think there is no such thing as a bad trade, just bad traders. You ultimately control your money. If you are a disciplined trader there should be no restrictions on which markets you can trade in.

Keep in mind when reading my small cap stock tips, that trading penny stocks should be part of an overall portfolio. Sure, you can trade only penny stocks, but you will benefit more from a mixed portfolio.