

## >: Should You Invest in Penny Stocks?

Tuesday, October 30, 2007 | Jason Jovine

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I decided to speak a little bit about the topic of penny stocks today, because every single day I receive e-mails, or occasionally a letter, from people who are pushing their penny stocks.

Having worked on Wall Street, as well as having lived in Queens, NY most of my life, I can make out a huckster within about two seconds. Let me say that generally speaking, well over 90% (I am probably being conservative here) of these no-name penny stocks are nothing but hot air, and you shouldn't even tell your worst enemy to invest in them.

Once in a very blue moon, there may be a penny stock worth looking at, but these are few and far between.

I will say that these penny stock pushers sure do get creative. One time, the subject line in the e-mail said, "Great White Shark Spotted in Florida." I opened it out of curiosity since I moved down to Florida several months ago, not to mention the fact that I try to get to the beach as much as I can, and guess what? That was just a hyped up title to get me to open the e-mail to read about some crappy penny stock.

### **Why do they push these stocks on us?**

The short answer, as is the case most of the time, is money. These penny stocks are usually traded on the pink sheets (<http://www.pinksheets.com/index.jsp>) or the bulletin board (<http://www.otcbb.com/>).

They are usually very thinly traded. In other words, there is very little activity or liquidity with these types of stocks. The smallest amount of buying or selling could significantly knock these stocks up or down. In other words, they are highly speculative.

As I always say, and I want you all to remember, risk and reward always go hand in hand, and penny stocks are no exception; they carry a ton of risk.

The people who push unsuspecting investors to buy penny stocks can be the actual management of the company itself and/or an outside investor who bought a lot of shares of the penny stock at a very low price (e.g. 1 or 2 cents a share). They want you and as many people as they can get to buy it, so as to knock up the price so that they can sell their positions and take their profits. It is kind of like a pyramid scheme.

Many times, the e-mails that are being sent out pushing these stocks come from other countries (e.g. Russia) and many times, organized crime can be behind the scenes orchestrating this fraud. They just push a button and blast these e-mails to hundreds of thousands of people. Even if .0001% of the people open them and buy the stocks that they are suggesting, then it is worth it for them. That said, stay away from these deals.

### **Change your thinking?**

One irrational thing about human nature is that many investors focus on quantity instead of quality. In other words, time and time again I have spoken with investors who, for some reason, would rather buy, say, 1,000 shares of a 10 dollar stock instead of 100 shares of a \$100 stock.

In either one of these two cases, you have \$10,000 invested. I would guess that the \$100 stock is "probably" a better company than the \$10 stock, but, for some reason, human nature tends to make us believe that the lower priced stock represents a bargain. I am telling you to change your thinking.

If you invest \$10,000 in whatever stock, it is still \$10,000. What you need to focus on when you invest is which investment has the lowest risk and highest potential reward; it's that simple.

If the returns on your portfolio are just not cutting it, and you are looking to kick start your portfolio, you would be better off trading options. Before doing that, though, I would strongly suggest learning and understanding them.

Options can be an excellent way to give your portfolio that extra kick. You don't have to be a cowboy with options. I heard a person a long time ago say, "Options are like eating an ice cream cone in a sauna." I agree with that to a certain extent, but that is overly simplistic.

Options can be risky **if you don't understand them**, but if you do, you know that there are many conservative as well as speculative option plays.

spend 15 minutes on the phone with anyone, they would at least understand the basics.

It is your money, folks, and you are working so hard to make it (most of you, anyway). Know what you are investing in, and take the time to study up on options; this isn't rocket science.

**Until the next time, folks, spend your hard-earned money wisely.**



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