

THE ULTIMATE GUIDE

Short Selling Penny Stocks

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PennyStockster.com

Table of Contents

Chapter 1 – Introduction

Chapter 2 – Make Money When Penny Stocks Go Down

What Is Shorting?

Taking Advantage of Pumps and Dumps

Charting Your Way to Success

Chapter 3 – The Fabulous Four

The PUMP

Green to Red

The Last Minute Spike

Gap Fading

Chapter 4 – Suit Up For Short Selling

The Best Ways to Find These Stocks

My Recommended Brokerages

Chapter 5 – My Top Ten Shorting Rules

Risk & Reward

Juiced

Cut Losses

Little Gains Add Up

Don't Force Trade

Afternoon Fades

Patience

Confirmation

Key Levels

Plan Your Trade

Chapter 1 – Introduction

If this was your average E book you would have paid a ridiculous sum of \$\$ just to read a worthless account of how “Joe” turned \$1,000 into \$1,000,000 and how you can too! Then, “Joe” would go into how this book only scratches the surface and that to get the full benefit you need to get my other course now for just \$999! To top it “Joe” would try to sell you some more products or try to get you to sign up for his stock picking service that guarantees 1000% returns!

You won't find any selling or one time offers in this E book because this is not a get rich quick from trading stocks E book. It's simply an E book that feeds you techniques, tips, and advice you need to know in order to profit from short selling penny stocks. It's up to YOU to use this to your advantage.

I don't make money by selling PDF files. I just make money trading penny stocks. More importantly I want you to make money trading penny stocks. I don't want to be a get rich quick stock guru nor do I want to be connected with them. While I could sell this E book and make money off of it, I'm instead using it as part a promotional tool for my newly launched penny stocking blog, PennyStocker.com.

I encourage you to share this E book! You can make free copies of it and send it to any family, friends, co-workers, or anyone else that would benefit from the advice given in this E book!

If you have a website, blog, or forum feel free to feature this E book to your visitors! It can be a great addition to any stock market blog out there! Just make sure not to alter the content in any way.

What you are about to read is the result of experience and research in the penny stock niche. This is a compilation of advice, tips, and techniques that have turned me into a successful young pennystocker.

It's my goal with **The Ultimate Guide: Short Selling Penny Stocks** to open the eyes of every trader to the lucrative niche of short selling penny stocks.

Here's to your trading success,

Justin Bostwick



Chapter 2 – Make Money When Penny Stocks Go Down

It's the common assumption that you can make money when penny stocks go up. But you downloaded this E book to wonder how you can make money when penny stocks go down, right?

For some reason there's this perception that you can't short micro-cap/penny stock companies. I'm sure some of you reading this now are still doubting you can't short stocks under 5 dollars. I'm here to clear the haze that surrounds this particular question: Yes you can short 'em!

All it takes is the right brokerage and certain techniques that I will teach in the following pages.

What Is Shorting?

For those of you who don't know exactly what shorting is or those who just need a refreshing, read on! To those of you that already know what shorting is, go ahead and skip this section.

Shorting is the exact opposite of buying. You short a stock in an anticipation of a decrease in share price. When you short a stock, your brokerage will lend you shares that you don't own that come from that brokerages own inventory. When shorting you are borrowing shares in a stock from your brokerage. When the stocks price goes down and you want to close out your short and take in your profits you have to buy back the same number of shares, this is called covering your short.

Some get confused about the buying back part, I know I did, so let me clarify. When you buyback those shares you aren't actually going to have an actual position in this stock anymore. You're buying back shares of stock you didn't own, so when you buy back the shares you shorted it cancels out the shares you buy.

When shorting you're account has to be a margin account in order to borrow shares to short. Margin account is more risky than a cash account but it does come with a great perk. You're able to day trade 3 times on a 5 business rolling period. This is essential if you need to exit quickly to avoid losses, or reap profits. What is great about this rule is that the small account traders can day trade even without the \$25,000 minimum you keep hearing about. Is that great or what?

Taking Advantage of Pumps and Dumps

One thing you have to understand is that these penny stocks are penny stocks for a reason! When I say penny stocks I'm classifying stocks that are trading under 5 dollars. Most of these companies are outright scams! They're carrying tons of debt and haven't made a single profit as a company. What these companies do is pay stock promoters to promote their stock via faxes, newsletters, etc.

Ever gotten one of those emails or faxes that say "Buy symbol: XXXX now for a quick 100% gain, guaranteed! Then they go into why with excuses like: "This company is going to announce a 500% revenue increase!" or "I just talked to CEO, huge plans coming, buy buy buy!"

Another way companies induce hype into a company is too release what many call "fluff" news. This type of news is just a PR that the company releases that is suppose to stimulate dramatic hype into a company and make them look good all while the news may not be newsworthy at all. There's an example of a fluff news release on the next page.

Press Release Source: MyECheck Inc.

MyECheck Inc. Patented Software Goes Live With Mentor Public Schools

Tuesday July 15, 2008 9:30 am ET

Check 21 Processor Implements in Ohio School District

SACRAMENTO, CA--(MARKET WIRE)--Jul 15, 2008 -- MyECheck Inc. (OTC BB:MYEC.OB - [News](#)), an electronic transaction processor and provider of alternative payment solutions, announced that its software has gone live at Mentor Public Schools, an Ohio School District.

MyECheck previously announced that an agreement had been signed and managed to implement its software within about 5 days of the signing. This quick turn-around is attributed to the streamlined integration process that MyECheck has now built for its clients utilizing easy application programming interfaces (APIs).

Ed Stars, CEO of MyECheck, commented, "Our APIs have evolved with the changing needs of our clients to the point where we can have a customer 'live' within a week of bank interface approval. We will continue to streamline this process and work with both our internal team and outside VARs to ensure that we provide a cutting-edge technology in this growing industry."

Mentor Public Schools is a School District in Mentor, Lake County, Ohio with 14 schools, including elementary, middle and high schools. MyECheck's eCheck solution now provides parents with the option of debiting their checking accounts for payments such as loading their children's lunch cards safely as an example.

MyECheck Inc. is a leading electronic transaction processor and provider of alternative payment solutions to credit cards for brick & mortar, internet, and intranet commerce. MyECheck utilizes a proprietary method of creating and clearing remotely created checks (RCCs) for exceedingly fast, secure and convenient payments. As the leader in Check 21 solutions and check image processing for online merchants, MyECheck's patented RCC solution provides merchants with financial access to more consumers than any other single payment method.

Please visit www.myecheck.com

1.0	0.9	0.8	0.7	0.6
Mon	Tue	Wed	Thu	Fr 1
MYEC.OB	0.80	+0.10		

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So is this newsworthy? The answer is no, it's just a press release from the company to build up hype.

When these kinds of manipulation happen to a certain stock it's called a pump and dump. You can either take advantage of the pump or you can take advantage of the dump. This is where shorting selling comes in. It's much more easier to pattern the dump of these stocks than it is the pump. What we want to do is catch the top, and ride the stock back down after the company executives, and promoters sell all there shares after they pump it up for a few days and/or weeks. The scammers reap the illegal profits going up, and we reap the LEGAL, not to mention easy, profits on the way down. Don't you just love how this works?

In the next section I'll explain the beginnings of how I find the tops of these stocks just before they dump to maximize short selling profits!

Charting Your Way to Success

There are several methods to finding the very tip top of these pump and dumpers, but through experience I've discovered that nothing is better than using plain candlestick charts. Candlestick charts show price movements through "candlesticks." These charts are very simple yet very effective in showing us when a stock is likely to fall. With candlestick charts there are different periods to which you can set them up to show 2 year, 1 year, 6 months, 1 day, 30 min, 1 min, etc. What I find that works the best with short selling is the 6 month setup, along with a 5 min setup. I will first chart a specific stock using a 6 month chart. If it looks like a good short I will then chart it using a 5 min chart to see if it's losing steam and to find specific price levels that indicate support and resistance. If you see a stock you want to short, it is essential to use the 5 min to pin-point the entry price. Here's a example of my chart setups(and the beginning of a classic pump and dump):



6 Month Chart



5 Min Chart

As you can tell my chart setup is relatively simple yet effective. You don't see any of those confusing technical indicators like the RSI, MACD, or Stochastic that all those “professionals” preach about. All that does is confuse the trader and adds more noise than you need to the chart; it goes to say less is more. With short selling all you need is volume displayed on your chart and a trained eye to look for these short selling pump and dump patterns.

Patterns that I will discuss in the next chapter.

Chapter 3 – The Fabulous Four

By now you know that I find the tops of pumps and dumps using charts, but I'm sure you're wondering what exactly do I look for in these charts that signal the top? There are 4 patterns that I look for when shorting hyped up penny stocks. Ingrain these patterns into your head for this is what short selling penny stocks is all about!

The Pump

This pattern is just what I call your typical pumped penny stock. There's nothing else to this pattern other than it's defined by when a penny stock rockets for 50%–600% in a matter of a single or multiple days based off of hyped promotion and/or fluff news. Below are 2 examples of The Pump...

Short Selling With PennyStocker.com



As you can see both of these exhibited huge gains of of “fluff” news. Both of these runs have reached the top as you can see from the big red candles on each chart. When this happens they’re in free fall mode and you can reap the easy profits! Now I bet you’re wondering, just how would you have made your entry and exit points in these stocks to profit on these dumps? Read on...

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