

Another Charles Heath Publication

Attention ! Read This

This book was written in 1996 and many of the discount stock brokers are no longer around and some of the software utilities either no longer exist or are no longer useful or needed to trade penny stocks effectively. Technical (TA) analysis software is no longer (in our opinion) useful or needed to trade penny stocks in today's markets.

However, all of the principals, methods, and strategies we use in this book to successfully trade penny stocks are still up to date and effective. Thanks

How To Make Money With Low Price – High Return Common Stocks

By

Charles Heath

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This publication should never be used as a substitute for competent legal advice. You should consult with legal counsel regarding any point of law.

All federal, state, and local laws and regulations, should be followed and adhered to.

Buying, selling, and trading, low-priced stocks from your home involves risk. You could lose some of your money or all of your money.

This publication is based on the personal experience of the author and is intended to be a helpful study companion for the entry level investor.

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Charles Heath

A Personal Message From Charles Heath

a.k.a. The Cheap Stock Addict

First ... let me thank you for your interest in my publication. I hope you find it enjoyable and helpful. Most of all, I hope it helps you make money!

I first became interested in the stock market in my junior year of high school. One of my teacher's tried to teach us the basic techniques that applied to successful stock market investing. Somehow girls and hot-rod Chevrolets just seemed to win out over making money with stocks.

The next thing I knew it was 20 years later. Time does fly. I finally started to pay attention to stocks again when I was in my mid 30's. I made my first real-money trades soon thereafter. It's never to late to get started. I'm living proof. The bright side is we're getting wiser not older. Anyhow ...

I followed all the television financial talk shows. I read a ton of books and stock market magazine articles. I talked to as many knowledgeable stock market professionals as I could, and one thing became obvious.

You have to find a method of investing that you feel comfortable with. I'm not a gambler. I don't feel comfortable chasing after a fast moving stock or a fast moving market sector. I'm also smart enough to know that you have to take some calculated risk if you expect to make any money.

You also need to understand that it takes some volatility to move a stock. The key is to buy in at the right price so that you're correctly positioned to get out with a profit when your stock starts to take-off.

I have found that knowing when to buy a stock is the easy part. I'll show you how I do it.

I've also found that knowing when to sell a stock can be the part that makes most people the most anxious. I'll tell you why and I'll show you how I approach getting out of my positions.

The stock market is not just for the rich and famous. You've got a chance to hit a home run as well as the next person so let's get started.

DECLARATION

The information contained in this instruction manual is based on the day to day records that I've compiled starting with my very first trades. All the information put forth is designed to help the entry level investor get up and running quickly with as few mistakes as possible.

I'm not the first person to write about buying and selling common stocks and I won't be the last. I am one the very few people that have taken the time to put together a fast-track instruction manual for getting started.

I personally wrote every word in this instruction manual. There are no old outdated re-printed pages from the works of others. There were no ghost writers, no paid copywriters, and no input from anyone other than myself, the author and publisher.

This manuscript was not purchased from someone else and has never been sold at any time to any person or any business entity. All copyright requirements have been adhered to and are fully enforced at all times.

Charles Heath

"LACK OF MONEY –
IS THE ROOT OF ALL EVIL".

GEORGE BENARD SHAW

Introduction

Let's Get This Show On The Road

Yes, it's time to get started. The number one priority for this instruction manual is to get you started out on the right foot from the very beginning. I'm not going to waste a whole lot of time trying to make this an exercise in stock market terminology, although I will cover what's necessary.

I'll cover all the day-to-day trading basics that you'll need to get yourself up and running. Let me be right up front about one thing. Once you get started, you'll need to keep yourself informed about all the different and sundry aspects of the stock market. You can't just buy any old stock and then sit back and wait for your ship to come in. Ships sometimes sink!

You've got to keep yourself educated and informed. It does not take a lot of time. There's plenty of information available in the major stock market newspapers and monthly market magazines. One good newspaper and a few good magazines can go a long way toward keeping you informed.

I cannot stress enough the importance of having a computer. I waited until I was in my mid-forties to get my first one. It was probably the best thing I've ever done. ***You do not need a computer to trade stocks, but I can just about guarantee you that using one .. will improve your results.***

The information that is available online via your computer is nothing short of astounding. Good timely information, is a driving force and major factor in the game plan of every successful investor. Here's the bottom line Go get yourself a computer, period! You'll be glad you did. End of story.

Once you've gotten yourself a computer go ahead and sign-up for one of the major online service providers. Every new computer comes with a few diskettes or CD-Roms for AOL, Microsoft Network, Prodigy, CompuServe, and two or three others. There is no shortage of information providers.

You'll never regret making the decision to get yourself a computer. You need to level the playing field as much as possible. Most investors and traders have a computer. Make sure that you have the same advantage. Never limit yourself when it comes to having good current information.

I want to take a few minutes to cover some of the basic and fundamental uses of the personal computer as it relates to investing in and trading common stocks. For those of you that already know all this, I ask that you please just bear with us for a few more moments.

I'll just cover the most basic functions at this time. We'll get a little deeper into computers and software applications a little later.

One of the most basic use's of the computer is to get stock quotes. You can find 15 to 20 minute delayed quotes in the (personal finance) area of just about all the online service providers. (MSN, Yahoo, AOL, etc.) They're all quite good and you'll find plenty of information.

You can also find quotes on the Internet. Almost all the online discount brokerage house's offer stock quotes on their site as a way to entice new viewer's into checking out what they offer. You just log on to the Internet through your Internet service provider (ISP) and use your browser and search engine to look for (online discount stock brokers). It's easy!

You'll also find a category on just about every provider that will allow you to get (company news). Most of the one's I've checked will show you all of the news articles released on the company you've chosen. Most of the providers show everything released as far back as two weeks or more.

You can also use your computer to open up a trading account. The total number of online discount brokerage sites has increased at a explosive rate. There is no shortage of places to open your account. I'll tell you who they are and how to find them in just a few minutes, so don't worry!

Once you open a trading account you'll be able to use your computer to access the (online computer trading and information programs) offered by your new online brokerage. You'll be able to check the status of your account and the progress of your investment portfolio 24 hours a day.

For those of you that want to take total control of your trading destiny, a vast amount of new stock market software has come to the rescue. You can do your own technical-analysis of individual stocks, follow market sectors, rate stock mutual funds, study trends, and trade in real-time, just like the professional big-shots. Yes, I'll tell you about the software too.

Deep-Discount Brokers

Notice! I've decided to jump ahead and cover brokers first. Order their (new account) information **right now**. Most discount brokers require that you open your account with an initial deposit of five hundred to two thousand dollars. You can make smaller deposits after you open the account.

Some firms that I'll tell you about will accept smaller amounts of money to open your first account. All you have to do is pick up the phone and call. Ask for their customer service desk. Just about every firm has a toll-free phone number. Some require as little as \$500.00 to a \$1000.00.

I'm going to list the best known "**Deep-Discount**" brokers at this time. These brokers offer one-way (a buy order or a sell order) trades for \$9.99 to \$19.95 per trade. The number of shares you can purchase for this price can vary from firm to firm. Shop around and compare prices.

Most of these brokers have a 800 number (automated) trading service, that allows you to place all your orders over the phone, without having to talk to a real person. This keeps their personnel cost low so that they can pass the savings on to you, in the form of dirt-cheap trade prices.

Just about every one of these firm's offer a online stock trading program. You can buy and sell your stocks right on your computer. All your trading and account information is completely private and secure. You'll get a special account number and password for easy access to your portfolio.

You can place your orders to buy or sell 24 hours a day, 7 days a week. If you place a after hours order, it will be entered at the opening bell of the next session. You'll never need to talk to a broker again. If you're not quite sure about how to place a order you can call a customer help line.

This help is usually just for placing the actual order (not stock advice). You'll be doing your own research. When you know what you want to buy you'll pick up the phone and place your order, or you'll go online with a computer and enter your order.

Always read the commission schedule for the actual dollar cost per trade. Example: (\$14.95 up to 5000 shares plus 1 cent for each share over).

I'll try to include a phone number for each brokerage. Let me remind you once again that you can access your browser and search engine to look up (online discount stock brokerages). There's plenty to choose from.

I started with the first broker listed below. I will probably open up a second account with another brokerage soon. There's just no such thing as the perfect brokerage. I've gotten reports (from people who make multiple trades per day), saying the big sites are sometimes too busy to access.

The listing of these brokerage firms does not constitute an endorsement or recommendation on my part. Choose a brokerage that fits your style.

E-Trade Securities: ... U.S. and Global Access

2400 Geng Road

Palo Alto, CA. 94303

<http://www.etrade.com>

1-800-786-2575

E-Trade was one of the first electronic discount brokers online and on the Internet. They're located in Palo Alto, California, in Silicon Valley. You can live anywhere in the world and trade with E-trade (online). Their web site is highly organized. This is a very professional and informative site.

All the brokers that I'll list have decent prices. If you trade often, low cost trades can save you a bundle. You'll find everything you need to make your stock trades on this site. E-Trade charges \$14.95 for market orders only, on listed stocks only, for up to 5000 shares of stock.

You'll find out, as I said earlier in this discussion, that not all investors or traders are 100% happy with any one specific brokerage firm. I hear from many about their experience with certain brokers. People either brag on their brokerage, or complain, with equal intensity. I hear good and bad.

You should always call the customer service numbers of these firms and ask them to send you their information on opening up a trading account. I suggest that you choose at least five or six of the best known and do a tit-for-tat comparison. You'd be surprised at how different they can be.

Let me say again Choose a brokerage firm that fits your style.

There's no special order to the way these next examples are listed. I'll be sure to make any notation that might be of benefit or interest. The reason that I listed E-Trade first was simply because it's one of the better known. Do not choose a brokerage based on fancy big-time advertising claims.

Note! The prices shown are for online ordering. Some brokerages will honor their low prices via a automated phone ordering system. All of the prices are subject to change (usually for the better). These guys have finally figured out that low cost trades bring in new blood (and money).

Aufhauser

1-800-368-3668

If you think that you might be a active trader (8 or more trades a month) with a minimum of 200 shares per trade, then this broker might be the one for you. Aufhauser requires that you pay a up front fee of \$800.00. This entitles you to 20 trades per month. This works out to about \$3.33 per trade. If you go over 20 trades, you pay \$8.00 for each additional.

Scottsdale Online

1-800-619-7283

These folks charge \$9.00 to buy or sell any number of shares of any stock. To get this price they require that your account not fall below the \$10,000 level. If it does, you pay \$19.00 a trade. They offer 50 real-time quotes with each trade. They also offer news and historical charts.

ProTrade

1-805-563-9017

ProTrade charges \$12.00 for any number of shares. This is for any U.S. or Canadian stock. Their account minimum is \$1000.00. You can get phone assistance if you need help placing a order. They offer real-time quotes and financial news.

Note! Some firms try to charge you an additional one or two cents per share on orders over 5000 shares. This was especially true on small-cap stocks that sold for a dollar or less per share. This seems to be changing as more and more people are heading to the lower price small-caps.

Datek Online

1-888-463-2835

Datek charges \$9.99 for up to and for each 5000 shares of any NYSE or Nasdaq stock. They charge you \$25.00 for phone orders. They will waive this charge if the computer is down. Many day-traders are known to use this brokerage.

Pacific Online

1-800-421-8395

Pacific Online charges a flat fee of \$15.00 for online web orders only, for any number of shares. Automated phone orders cost \$19.00. They offer real-time quotes on ordering only.

Ceres / Now AmeriTrade

1-800-669-3900

Ceres charges \$18.00 for any number of shares. Their account minimum is \$5000.00. You pay the same price to order online or by phone. They offer real-time quotes for a fee.

JB Online

1-800-468-1876

JB Online charges \$15.00 plus a \$3.00 fee for any number of shares. Their account minimum is \$5000.00. They offer real-time quotes with orders only.

Ok folks, let's stop here! This is more than enough to get you started. You can find many more online searching under "discount stock brokers".

Ok .. The bottom line! ... Who do I use ?

The broker that I use is myTrack. They are an easy to use extremely high tech operation. They offer dirt-cheap trades and great customer service. There are no penalties for trading listed NYSE, NASDAQ / AMEX, and OTC:BB penny stocks priced under \$1.00 per share. You can trade up to 100,000 shares for just \$12.95 per trade.

They offer a free, silver, gold, and platinum version online trading platform that beats everything else I've ever seen. It's my opinion that they offer penny stock traders the best trading platform. So visit myTrack now ... and ..

Let me say again that the right brokerage can make investing and trading a much more enjoyable and profitable experience. Again, it's my opinion that myTrack fits the bill as the best over-all trading platform.

Quickly, let's take a moment to cover what's known as Price Improvement.

Price Improvement .. is an attempt by the brokers to get you a better than the asked price if you buy a stock, and a better than the bid price if you sell your stock. Many brokers claim to offer this improvement in price, but don't expect any of them to go out of their way to make sure you get it.

The Nasdaq market regulators are on track to phase in mandatory price improvement rules starting in 1997. This will force all brokers to take the necessary steps to inform buyers and sellers as to whether or not they actually got price betterment on their stock transactions.

You've now got enough information to start your own search for a broker. Understand that price is not the only consideration when choosing your broker. (But it is a big one) You want fast trades, executed in an efficient manner, with prompt confirmation, of each and every order placement.

You should also understand that you should (know what you're doing), before you yank the brokers chain about something not being just right. But then again .. don't be timid about asking questions if you think that something's amiss. Many of these computer desk-jockeys make mistakes.

For those of you that think there's not much difference between a broker that charges \$9.95 for a trade, and another that charges \$28.95 for a trade .. well .. think again. That's a \$19.00 difference! Two trades a day is \$38.00. Five trades a day is \$95.00. Twenty trades a week is \$380.00.

The savings on those twenty trades is a nice car payment. Some people make forty to fifty trades a month. That's a savings of \$760.00 to \$950.00 for one month. We're talking house payment here. It's not likely that you'll start out making this many trades, but who knows. It happens!

The lesson here is a simple one. Find a broker (myTrack) that offers low-cost trades and great service. Even a ten dollar difference adds up to big money.

Information And Data Providers

Notice! I listed brokers first so that you could order their new account information and start making comparisons. I suggest you go ahead and order the same material from information and data providers. Study and compare what they have to offer. Quality information is absolutely crucial.

Get every piece of current news that's available before you make a trade!

The amount of (and the quality of) information that's available on your desktop computer is just about beyond description. Once you start your search for specific stocks to buy, you'll quickly realize the importance of accurate and current market information.

When I look for stocks to buy I always try to narrow down the selected field to the best possible candidates. I start looking for news on each of the stocks I've selected. I want as much news as I can possibly find. The major financial news outlets and wire services all offer online releases.

It's relatively easy to use your computer to get historical stock information and company news releases on just about any individual stock. It only takes a few mouse clicks to find quarterly reports and highlights of any recent stockholder meeting.

Most of the online service providers (AOL, MSN, Prodigy, and Yahoo!) have quite good stock market and investment information. It's common to find news releases on one individual stock that goes back as far as a month or more. Late breaking (good or bad) news can save the day.

Let me say that I have not forgotten the major financial newspapers. The two best known are the Wall Street Journal and Investor's Business Daily. I read them both on occasion, but I find them to be too time consuming. It's much easier to log on to my computer and find exactly what I want.

You can type in your stock symbol and find a ton of useful information.

You'll find historical price charts and graphs for individual stocks that go back a month, a year, three years, or more. You'll get quotes, company news, earnings reports, new product information, and much more.

I'm going to list some online financial information providers, quote and historical information providers, and stock market research sources.

Everybody knows about AOL and Yahoo. They're very good.

Here's some of the big time players of Wall Street cyberspace.

1. The Dow Jones Information Services are absolutely huge. Dow Jones is by far the world's leader in global financial information. They offer:

- a. *Dow Jones News/Retrieval*
- b. *Wall Street Journal's Personal Journal*
- c. *Dow Jones Market Monitor*
- d. *Dow Vision*
- e. *Dow Jones Telerate*
- f. *Dow Jones News Services*
- g. *Dow Jones Investor Network*
- h. *Dow Jones Newspapers, Magazines, and Radio*
- i. *Dow Jones Software Products ... and the list goes on and on.*

2. Reuters Cyberspace Financial Exchange.

This British based cyberspace information exchange is the largest of it's kind. You'll find real-time information and news, historical databases, and analytical software.

Reuters covers 217 international exchanges and OTC markets with 1,600 reporters. They report on money, commodities, securities, bonds, shipping markets, and energy. News is delivered in 18 different languages.

3. Knight-Ridder

Knight-Ridder is primarily a provider of data and analytical tools to active traders and institutional investors. They offer professional trading tools for real-time and end-of-day traders.

4. Bloomberg: Wall Street

One of the newer powerhouse providers in Cyberspace. Bloomberg's strategy is to give their customers crucial information in one centralized format and then work directly with them to help the client make money.

Whatever you do, don't limit yourself when it comes to good information.

Note! We'll be covering software applications a little later. These software programs allow downloading of historical and real time (tick-by-tick) stock price data based on your personal criteria. I want to keep all of the main information providers in one section of this instruction manual.

These are the most widely known (data vendors). You can retrieve your information via your computer modem and/or a cable feed.

You can get (real-time) or (end-of-day) data.

DBC Signal

1-800-367-4670

Dial/Data

1-800-275-5544

Dow Jones

1-800-522-3567

MarketScan

1-800-456-9190

CompuServe

1-800-848-8199

DTN Wall Street

BMI

Standard & Poor's Comstock

Tick Data

CSI>

FutureSource

AIQ

ASCII, MetaStock, MegaTech/Knight-Ridder, TC2000, CompuTrac.

The Game Plan

What is it? That's simple! We're here to learn how to make money buying and selling low-price stocks. You'll learn how to recognize these stocks and you'll do your own analysis of each one individually. Yes, you'll learn to make your own decisions.

You won't be having any telephone conversations with fast talking stock brokers. You won't be buying any Blue-Chip Wall Street darling stocks. You're going to be spending your time searching out solid small company stocks that sell for five bucks or less per share.

About 50% of the stocks that I buy cost less than \$1.50 per share while about 20% fall into the \$1.50 to \$3.00 range, and the other 30% are in the \$3.00 to \$5.00 range. Stocks in this price range have tremendous potential to move to the upside and make you some serious money.

And like all stocks, they have the potential to move to the basement and leave you with a loss. You'll learn how to limit that possibility and protect yourself with special buy-sell instructions placed at the time you order. There's no way to totally eliminate risk .. other than doing nothing.

The stocks you'll be looking for will be low-price stocks, temporarily out of favor with the market in general, and specifically out of favor with active investors. These will be fundamentally sound companies that have shown themselves to be serious contenders in their specific field of business.

These stocks will be trading at, near, or below, their (52 week low) trading ranges. You'll be buying these specific stocks when no one else wants them. These will be stocks that tend to cycle up and down once, twice, or maybe even three or more times a year, off that **wonderful** 52 week low.

When you buy these stocks you might decide to dig in your heels and hold on to it for a month, 90 days, six months, or maybe even a full year. You'll more than likely own a 1000, 5000, 10,000, or even 20,000 shares or more of a particular stock.

You won't be losing a whole lot of sleep, because you will have done all of your homework .. before the purchase.

It's also very possible that you might not hold on to your stock for a long period of time. You might feel compelled to sell your new stock within one hour, two hours, or before the market close, on the same day that you purchased it.

You might take a gain of a 1/8 point, a 1/4 point, a 1/2 point, or even a lot more, in one day. You could do this on the first day, the tenth day, or the tenth month. You never know what to expect, but you'll be ready because you'll always do your fundamental and technical research.

And You won't mind making trades because you'll only be paying ten to fifteen dollars for each trade that you make. Of course, you might well decide that patience is the proper virtue, and you'll ride your winner for two months, six months, or a year, confident of a much bigger payoff.

Once you've mastered the art of bottom-fishing for these solid little low-price stocks, you just might want to have a go at some small companies that are what's known as (momentum) plays. These are usually smaller companies in the (high-tech/bio tech) field that have new discoveries.

They get hyped-up and recommended by some TV commentator or some business-news writer, that fans the flames and sets the stock in motion. You'll be smart enough and cautious enough to recognize the trend, and then jump in for a quick fraction of a point before jumping right back out.

You'll also be getting privileged information (on specific stocks) from the best stock-pickers (us) in the country. High circulation newsletters have enough clout to drive specifically recommended stocks off their current price level, or even to new all time highs. You'll be in on the action.

You'll feel confident about making your trades because you'll be getting accurate and timely information from the best providers in the country. Your stock trading software will help you analyze and chart past and future performance of your stocks as well as helping you find new stocks.

My friends, this is just a general overview of our game plan. Next, we'll discuss common stocks and the characteristics they must exhibit for us to make money. Yes, we'll get to trading strategies, order placement, stock tracking, turnarounds, chapter 11's, and a whole lot more.

What's So Great About Low-Price Common Stocks

That's simple! They're easy to buy and sell (liquid). Vital information on any exchange listed common stock is easy to obtain. The performance of common stocks can be easily tracked. Broker commissions to buy or sell common stock is so low that we can now make frequent trades.

When you buy a share of common stock, you immediately become part owner of that company. The more shares you own, the bigger percentage of the company you own. You can make or lose money if the price of your shares go up or down. You can also make money off the dividends paid.

The price of common stock can move up or down for many reasons. New product announcements, good news/bad news, a major brokerage firm recommendation, merger announcements, and increased sales and profits, are the most obvious reasons.

Common stocks fall into different categories. The Blue-Chip stocks come to mind first. These are the Wall Street darlings. They're usually very expensive to own. They usually fall into the fifty to one hundred dollar price range. They're so expensive most people can't buy many shares.

I'm not going to spend a lot of time talking about stocks that we won't be buying, so I'll just give brief mention to their existence.

Growth Stocks: Well known younger companies. (\$20 to \$50.00 range).
Income Stocks: Safe stocks that return profits (dividends) to stockholder.
Cyclical Stocks: Price moves up and down with great regularity.
Trendy Fad Stocks: Fast moving high flyers hyped-up by Wall Street.

And finally Low-Price Stocks: (small-caps penny and micro-caps). This is where we'll be spending all our time and energy. We'll be focusing in on stocks that cost \$5.00 or less per share. We'll be looking for high quality companies that have good sales and earnings records.

These will be stocks that are traded on the NYSE, the American Stock Exchange, and the OTC (Over the Counter National Market System). We'll sometimes buy and sell stocks listed as (Pink-Sheet) stocks or (Bulletin Board) stocks but, we'll stick mostly with the major exchanges.

Before we move on, let me say a few things about cyclical stocks. This category of stocks (in my opinion) offers stock market investors one of the best money-making opportunities of all time. In addition, the amount of risk can be very minimal if you stick with good quality stocks.

Many low-price stocks cycle up and down as many as two or three times a year. Many have a history of falling to a 52 week low and then bouncing back up within a predictable period of time. Some cycle up off that 52 week low only moderately, while others take off on truly wild rides.

Make no mistake about it. We'll be looking at low-price stocks that cycle up and down as way to nail down some profits. I think that this is one of the most consistent and reliable ways to make money with common stocks. Small stocks that cycle up and down can offer some very good returns.

There are also quite a few small-cap companies that have brand new products which are about to be announced. The common stock of a small company like this can take off on a tear to the upside very quickly. The same thing can happen on good sales and earnings announcements.

There are a multitude of reasons for a stock to go up. There are just as many reasons for stocks to fall in value. Let's cover a few right now.

1st Reason! There are more sellers than buyers! That's simple enough. So why does anyone want to sell a stock (other than taking a profit) .. ?

2nd. The stock is a dud. Investors are just tired of waiting for good news. Loosing patience is the best way to put it.

3rd. Officers of the company (insiders) start selling off their shares. Many investors think something is wrong when insiders start selling.

4th. Big institutional investors start getting out. They usually hold huge numbers of shares. (teachers pension fund money, etc). The very large number of shares being sold depresses the stock price due to the above average amount of stock for sale.

5th. Tax Selling. Investors who had big gains on some of their stocks will sell their losers. This lessens their tax liability.

How The Three Major Exchanges Function

I highly recommend visiting these web-sites:

<http://www.NYSE.com> ... <http://www.NASD.com>

Let's take a little time to discuss who the major exchanges are and the basic way a trade is handled. There are some regional exchanges that are fairly well know, but we won't be using them for any transactions. We will stay focused on the big-three exchanges.

The New York Stock Exchange is the largest stock exchange in America. It's located on Wall Street in New York City. Close to 2000 of the biggest corporations in the United States have their stock listed on this exchange. These are the Blue-Bloods of the American business scene.

The American Stock Exchange is next on our list. It's very similar to the NYSE as to the manner in which it operates. I would guess that about 800 to 1000 companies have their stock listed on this exchange at any given moment. As of this date the Nasdaq and Amex are talking about a merger.

Third on the list is the Over-The-Counter Market. This association has more listed securities than any of the others. The OTC association is a tight knit group of securities houses located in major cities all across the United States.

OTC securities dealers belong to a nonprofit organization known as the NASD (National Association of Securities Dealers). They use a computer trading system known as NASDAQ, that provides brokers and dealers with price quotations for each security traded over the counter.

The stocks we'll be looking for will be listed on these three exchanges. The primary difference between the three exchanges is that each one has different listing requirements. Stocks listed on the NYSE must meet the strictest requirements, while the ASE and OTC are less demanding.

Stocks move around from one exchange to another due to the different requirements imposed by each exchange. Stocks on the NYSE get great visibility, so it's desirable to be listed there. There are also different rules on each exchange for raising capital (selling stock state by state, etc).

When you decide to buy shares of a certain stock you'll go online or call your brokerage firm to place a order. Your broker acts as the middleman between the buyer and the seller. The broker receives a commission for this service. The broker enters the order. It goes to the trading floor.

A floor broker receives the order and goes to the designated spot on the floor for trading that specific stock. The floor broker then buys the shares from a specialist and confirms the purchase to his trading department. Then the trading department confirms the trade to the brokerage firm.

The brokerage firm notifies the client (you) to complete the process. The The American Stock Exchange and the New York Exchange operate in a similar manner. The computerized online brokerages are able to handle a normal market order trade and confirmation in just a few seconds.

OTC stocks trade a little differently. OTC stocks are listed on a computer system that shows two prices for a share of stock called (bid and asked). The asked price is the lowest price that a market maker will sell a stock. The bid price is the highest price a market maker will pay to buy a stock.

Example: (\$1.00 bid ... \$1.12 asked). The difference between the two is called the spread.

If you want to buy a share of a OTC stock you just go online or call your brokerage firm to place a order. Your broker sends your order to the trading room where the order is executed and your shares are purchased as specified. (usually at bid/ask or sometimes between the spread)

Note! Some brokerages (may or may not) be what's know as a market-maker in a specific stock. Your brokerage could possibly have to go to a market-maker (if they're not) to buy the stock for your account.

The competition among the market makers usually means the investor will get the best price possible on a share of stock.

There have been many times that I've placed a order between the bid and the asked price (the spread), and actually had the order fill within a day or so. Example above: (\$1.00 bid ... \$1.12 asked) Enter a order at \$1.06. If you buy 5,000 shares and get your wish, you'll save about \$300.

Understanding Fundamental Analysis

The first thing we want to do is to stay focused. We want to concentrate on stocks in the \$5.00 or less category. Why? It's very simple. The more shares we control, the more money we make. Let's say you have \$5000. You can buy 5000 shares of a \$1.00 stock, or 100 shares of a \$50 stock.

A 50 cent move up on your \$1.00 stock (times 5000 shares) makes you \$2500.00. The same 50 cent move on a 100 shares of your \$50 stock would make you only 50 bucks. That 100 shares of the \$50 stock would have to move up \$25 a share to make you \$2500.00, and that's not easy.

Again, we want to control as many shares (of a good stock) as possible to maximize our profits.

Note! You'll be subscribing to a high quality alert service (us) that makes buy/sell evaluations. Hopefully, we'll do a good job of researching all of the companies we pick, but we can sometimes be wrong. For this reason you need to know yourself .. what traits to look for in a good low-price stock.

These traits are what's known as the fundamentals. You'll be doing your own **fundamental analysis** of any company that gets recommended by your newsletter writer. This knowledge will also enable you to search out your own stocks, without the aid of a stock-picker's newsletter.

Basically speaking, fundamental analysis means that we'll be looking for and finding, every bit of financial information available that could affect the performance of the company's stock price. You'll be looking at the past performance and making comparisons to the present performance.

These companies make public their financial statements. It's required. This information can be found in the annual 10-K statement, and also in the quarterly 10-Q statement. This information is readily available online with just about every online service. (AOL, Yahoo & brokerages.)

You need to examine the company's total tangible assets and compare these numbers to the overall financial condition of the company. You will consider past and present sales, quality and desirability of the product, the quality of management, and future sales potential of the product.

To predict the future growth potential of a company you'll need to look at the 10-K and 10-Q financial statements very closely. You must look for information such as earnings per share, book value, price to earnings ratios (PE), and the current stock price compared to the past 52 weeks.

You should also carefully study all five categories of the annual report. Study the .. The Consolidated Balance Sheet, The Income Statement, The Statement of Changes in Financial Position, Statement of Retained Earnings, and Notes to the Financial Statements.

You want to find companies that have a excellent track record of good management, good products, aggressive sales and marketing strategy, and a growing and loyal customer following. If these criteria are present, along with good fundamentals, you will be on the right track.

The sole purpose of fundamentally analyzing a company is to zero in on a company whose stock price is undervalued compared to it's real worth. Simply put, the stock is selling for less than it's worth. This is what you're looking for, and this is what you want to buy.

By recognizing a good stock that's undervalued (before everyone else) you can get in at the bargain-basement price and ride the wave up. This is why you will search for stocks trading at their 52 week lows. If they meet all the fundamentals, you'll be getting in, at precisely the right time.

If the company is fundamentally sound and trading at a 52 week low, then there's a excellent chance that the stock will be more likely to move up, rather than down. A little good news is sometimes all that's needed to put the stock back into a upward trend.

And remember! Most of the stocks that you'll be following will be the one's that have a history of cycling up and down over a (2 or more year) period of time. By analyzing these types of stocks and buying in at the 52 week low price, you'll be limiting your downside risk (although not totally).

Buy these stocks at the 52 week low when no one else in the market is interested. Buy enough shares so that a small move can return hefty profits. When other people start buying the stock and driving the price up to it's yearly highs, you want to be selling and getting out with your profit.

Understanding Technical Analysis

Two good Books:

The Technical Analysis Course

by: Thomas A. Meyer

Available From Equis International

1-800-882-3040

Technical Analysis From A to Z

by: Steven B. Achelis

Also Available From Equis International

Notice! Both books can usually be found in most public libraries.

Technical analysis is a very reliable tool for forecasting market trends and timing market changes. Technical analysis can be very accurate. It is also very ... unemotional. It has been proven time and again that stocks move in trends. Technical analysis is used to spot those trends.

Technical analysis is best defined as ... the study of individual securities and the overall market based on supply and demand. Technicians use charts and graphs to study past and future probability of stock prices. Historical stock price and volume activity is used to program their charts.

Technicians believe that price movements are simply a reflection of the changes in supply and demand. A technician does not care what the underlying forces are that cause a shift in supply and demand. All that a technical analyst cares about is ... what is actually occurring.

Technicians believe that stock price movements are nothing more than the reflection of changes in supply and demand. A major principle of all technical analysis is that prices move in identifiable trends and trends persist. Again, there's no emotion. There's only the event occurring.

If a stock is set in motion, the trend will remain intact until it ends. Once a stocks price starts moving up, the trend will continue until there is a clear reversal. And yes, once a stock price starts to move down, it will decline until there's a clear reversal.

The other major principal on which technical analysis is based is that the trends repeat themselves. Trends or patterns appear time after time on charts and graphs. These patterns can be interpreted and used to make educated predictions as to the future movement of the stocks price.

Although your track record on making predictions based on this system won't be perfect, the odds will be in your favor most of the time. Trends tend to repeat themselves because human nature is such that people tend to act in the future, just as they have in the past.

By studying the actions and behavior of people in the past, technicians can determine how people will react under certain conditions that occur in the current market. This behavior determines stock price movements. This information can be used to identify market tops and bottoms.

The great thing about technical analysis is that it can be applied very effectively to just about any trading situation or time horizon. You can analyze stocks, bonds, options, commodities, mutual funds, and many other investment opportunities.

Plus, you can make tic-by-tic (real-time) trades, intra-day, daily, weekly, or monthly trades.

The best way to use technical analysis depends on your investment philosophy and your approach to the market. Everyone's risk tolerance is different. Taking on a lot of risk can raise your stress level and get on your nerves. You need to evaluate your strengths and weaknesses.

If you're in to high-tech wiz-bang software and computer applications, I'd say that you'll love technical analysis.

This is just a small sample of the terminology and subjects covered:

Starting with: Bar charts, volume charts, reversal chart patterns, spikes, gaps, head and shoulders tops and bottoms, ascending and descending triangles, flags, island reversals, trend channels, speed resistance lines, moving averages, envelopes, oscillators, relative strength analysis, open interest, divergence analysis, stochastics, candlesticks, point and figure charting, extreme readings, the Dow Theory, and much more.

Books, Trading Systems, Video Courses, and Software

(for fundamental and technical stock analysis)

The market is absolutely over-flowing with information. There is so much out there that it's hard to choose the right product. Always check out the public library first. You'd be surprised at how many investment books can be found there.

Here's two sources for books, trading systems, and video courses. Call to get a copy of their newest catalog. I use the first one listed.

Traders Press
P.O. Box 6206
Greenville, SC. 29606
1 800 927 8222

Traders' Library
9051-M Red Branch Road

Columbia, Maryland. 21045
1 800 272 2855 ext. 639

Software

It's my opinion that you just can't go wrong if you purchase your trading software from Equis International. Their new MetaStock trading programs are considered to be the best trading tools available. I've purchased their real-time and their end-of-day software. Buy the best ... the first time.

You can do just about anything and everything with MetaStock. The end-of-day version for windows is what I recommend. This version is the one that's constantly judged the best by all the editors of the major stock and futures trading magazines.

Again, you can't go wrong with this software. I get nothing for saying so.

Equis International (MetaStock)

3950 South 700 East, Suite 100

Salt Lake City, UT. 84107

1 800 882 3040

When it comes to investment software and trying to choose what's best for you, always compare. I suggest that you get on your computer and use one of the major search engines to see what's available. All you have to do is type-in the description (investment software) and click (search).

You'll find all the software you can say grace over. Here's an example of some inexpensive software that can be found on the internet. Note! This is not a recommendation. This is just an example.

Quant IX Stock Analyst
1 800 247 6354

Investment software for Fundamental Analysis and Valuation Modeling
Five (5) different way's to analyze risk/reward ratios.
This software is relatively inexpensive. Approximately \$69.00 retail.

Note! There's a lot of good software available on the market that sells in the \$100 to \$400 price range. There's also some that retails from \$1000 to \$3000 per program. No, you won't need to spend that much, so relax.

This is a must see site!

Visit this site before you spend a cent on software.

<http://www.traders.com>

This site belongs to ... *Technical Analysis of Stocks & Commodities*, the best known, and most highly respected magazine of it's kind. When the page loads itself, scroll down and click .. (New Software Comparison). Note! .. site changes often so look carefully for the link.

The page that comes up will list approximately 140 different technical analysis software trading programs. The magazine has done a detailed comparison of all 140 software applications. Good software is not cheap, and this site can help you make the right choice the first time.

Here's a sample of the approximately 140 software titles compared.

AIQ Trading Expert, Bookmaker, CIS Trading Package, DTN Wall Street, First Alert, Gann Trader, Internet Trader, **MetaStock**, Power Trader Pro, Real Tick III, Stock Prophet, TradeStation, NAVA Patterns, OpenArc, Windows on Wall Street, Worden Brothers Tele Scan, and many more.

Definition Of Terms and Basic Market Language

(Glossary)

What's going on here? The glossary is usually at the rear of most books! Well guess what. I've decided to be different. Before we get into actually picking stocks and discussing trading strategies, it just seems logical that you should understand what all the major terms mean.

Read the definition for every term listed "**now**", not later! I've listed the basic terms that are common to everyday trading activity.

Refer To This Section As Often As Needed

Account A brokerage firm's record of your transactions.

Asked Price The lowest price you can expect to purchase a security.

Annual Report This is the yearly financial statement that shows the corporation's financial condition.

At The Market An order placed by an individual instructing a broker to buy or sell a security at the current trading price.

Bid Price The highest price at which a individual can expect to sell a security.

Bear A individual who believes the market will decline.

Bull A individual who believes the market will rise.

Block Trade A trade of 10,000 or more shares of stock.

Book Value The total assets of a company minus liabilities and shares of preferred stock.

Broker Someone who acts as an agent in the buying and selling of securities.

Bond A promissory note of a corporation.

Blue Sky Laws State security laws applying to the sale of new issues. Designed for the express purpose of protecting the public.

Churning Excessive trading of a stock within an account by an authorized individual that has control over the account. This practice is illegal.

Collateral Securities or other assets that are pledged by a borrower to guarantee the repayment of a loan.

Certificate A document proving ownership of a security.

Commission The broker's fee for buying or selling a security.

Common Stock The securities having last claim to the assets of a corporation. Most common shares have voting rights, and many pay a dividend.

Day Order A buy or sell order that is valid only for a single trading day.

Dividend A payment made by the company to the stockholder. This is usually money derived from corporate profits.

Dollar Cost Averaging Buying securities at regular intervals and at fixed amounts.

Diversification Spreading your capital among many different types of investments for the express purpose of reducing risk.

Dealer When a brokerage house is acting as a principal in a trade.

Debenture A bond backed solely by the general credit of a company.

Discretionary Accounts An account in which a stockbroker has the written permission of the client to make trades in the account.

Equity The ownership value of a security held in the brokerage name.

Earnings Per Share The amount of net income earned for each share of common stock after payment of dividends to preferred stockholders.

Effective Date A date in time when the registered offering of a security may be sold to the public.

Fiscal Year A corporation's accounting year based on a 12 month time period. Not necessarily a calendar year.

Float The number of shares of a company generally available for buying and selling.

Floor Trader A stock exchange member who trades on the floor of a exchange for his own account.

Fundamental Analysis Evaluating a company by studying management and financial conditions, to gauge the company's true value.

Good 'Til Canceled An order to buy or sell that continues in effect until canceled. Termed a GTC order.

Growth Stock A company that has demonstrated the ability to increase profits over at least a five year period of time.

Going Public A first time offering of securities to the public.

Hot Issue A new issue that is in great demand.

Holding Company A corporation which owns the shares of another.

Hype Misleading and inaccurate information used to promote a stock.

In-and-Out Purchasing a stock and then selling it almost immediately. Usually for a quick profit.

Issue A company's security.

Insider An executive or stockholder of a public firm owning more than ten percent of the company's shares.

Indenture A written formed contract between the issuer of a bond and it's investors.

Inactive Stock A stock that trades on very low volume.

Inside Information Company information that has not been made public.

Investment Banker The underwriter taking a firm public.

Joint Tenants More than one investor owning the same stock in a joint account.

Leverage Using borrowed funds to increase the rate of return on a investment.

Limit Order When a individual instructs a broker to to buy or sell a security at a clearly stated price, or better.

Listed Stock A stock that is listed on one of the major exchanges.

Manipulation The buying or selling of a security to create a false or misleading appearance of active trading.

Margin The act of buying securities with borrowed money provided by the brokerage firm.

Match Orders This occurs when a broker attempts to offset either heavy buying or selling in a particular stock.

Market Maker A Over-the-Counter dealer who maintains firm bid and offer prices in a specific stock by standing ready to buy or sell round lots of stock at publicly quoted prices.

Market Price The current or last reported price at which a stock traded.

Member Firm An investment house which belongs to a registered exchange.

NASD The National Association of Securities Dealers.

NASDAQ The automated price quotation network of the NASD.

Net Income Profits from company operations.

Net Worth Assets minus liabilities.

Nominal Quotes Over-the-Counter quotes that are neither recent or necessarily accurate. Sometimes called "ball-park quotes".

Odd Lot Stock trades of fewer than 100 shares.

Off-The-Board Refers to securities not executed on one of the national exchanges.

Offer The price a security is offered for sale.

Open Order A order that has been given to buy or sell stock, but has not yet been completed or filled.

Paper Profits Profits on securities that become real only when the security is actually sold and the proceeds received.

Passed Dividend A term used to describe when a company omits it's dividend.

Penny Stocks Low priced stocks selling for less than one dollar per share. Sometimes called micro-caps. Many big name corporations have traded in this price range at one time or another.

Par Value Dollar value assigned to a share of stock by the company's charter.

Pink Sheets A listing of bid/ask prices and market-makers of OTC stocks that do not have a stock symbol.

Portfolio All the specific securities being held by an individual.

Post A specific location on an exchange floor where stocks of certain companies are traded.

Public Offering The sale of securities to the general public.

Quote Usually the bid/ask price you receive from your broker or online service. It's the highest bid to buy and the lowest offer to sell your stock at a specified time.

Rally A very sudden increase in market value and activity.

Rights Offering An offering by a company to its shareholders to purchase additional shares of stock for a definite period of time.

Registered Representative Another name for a stockbroker.

Reverse Split A reduction in the total outstanding number of shares caused by reissuing shares at a higher par value.

Round Lot Usually a 100 share unit of stock.

Specialist A stock exchange member who stands ready to buy and sell a security in order to maintain an orderly market.

Sell Order An order given by an individual to his broker to sell his stock.

Secondary Market The market in which you can buy and sell securities following an initial offering.

Shares Outstanding The number of company shares owned by the public and not held by the company.

Short Sale Borrowing a security and selling it expecting the security to decline in price so you can buy it back at that lower price.

Stock-Limit Order An order to buy or sell a stock when the price reaches a certain level.

Sweetener Refers to a warrant when attached to a common stock.

Stock Split Dividing existing stock into more shares and reducing the price per share to help improve the stock's marketability.

Shot From The Sky Slang used to describe a sharp market downturn.

Stop Loss Order An order to sell a stock if a certain price is reached.

Stop Order An order to sell at a price below the current market, or an order to buy at a price above the current market.

Syndicate A group of underwriters or investment brokers that distribute a new or secondary issue of securities.

Street Name Stock kept in the name of the broker instead of the person that actually owns the stock.

Tick Slang term describing the fractional change in the price of a stock.

Takeover When one company acquires another.

Target Company The company that is the subject of the take-over attempt.

Trader Someone who buys or sells stock for his own account to make short term profits.

Tender Offer A public offer to purchase shares of a company from the existing stockholders.

Thin Market Usually means very few bids to buy or offers to sell.

Tip Advice from a friend or acquaintance who supposedly has inside information on the next red-hot stock. (usually no good)

Unit A combination of common stocks and warrants.

Volatility A measure of price movement in a stock.

Volume Usually the number of shares traded for the market or a stock.

Warrant A certificate that gives the holder the right to buy a stock at a specific price, within a specified time period.

Yield Return on investment expressed as a percentage of current price.

Basic Technical Analysis Terms

I'm only going to list the most basic and common terms at this time. When (and if) you purchase any technical analysis software, you'll get a set of operation instructions that will cover all the terms for each application. You should order a technical analysis book from *Equis*. (page 27)

Accumulation Occurs when the supply of a security is less than the demand.

Bottom A low for a security or the overall market.

Breadth The number of stocks advancing minus those declining.

Channel Trading range between two parallel lines in which prices move.

Congestion Area A sideways trading range where supply and demand balance out.

Consolidation Area A trading range in which prices move until continuing in the same direction as the trend prior to the consolidation area.

Cycle A price pattern of movement that regularly occurs in a given time interval.

Distribution Occurs when the demand for a security is less than the supply.

Envelope Also known as a trading band. Parallel lines above and below a graph containing normal price fluctuations.

Exhaustion When buying power is no longer enough to move prices up or when selling power is no longer enough to move prices down.

False Breakout A breakout of a chart pattern that aborts.

Gap Represents a price range on a chart at which no trading occurs.

Momentum The rate of expansion of a security's price or volume.

Moving Average A tool used to smooth fluctuations, allowing you to better determine price trends.

Optimization A test performed on historical data to determine what would have resulted in the maximum profit during a given period of time.

Point and Figure Chart Records price activity without reference to time and volume.

Pullback When a security or the overall market falls back from a previous advance.

Resistance Level The price at which sellers tend to sell in sufficient volume to lower the price of a security.

Selling Climax A sharp price decline followed by extremely high volume created by panic stricken investors dumping securities.

Short Covering The process of buying stock to close out a short sale.

Support Level The price at which buyers tend to buy in sufficient volume to raise the price of a security.

Technician One who uses technical analysis as the basis for making investment decisions.

Top A high for a security or the overall market.

Trend The trend is the direction of the price movement.

Trend-line A straight line on a chart that connects consecutive tops or consecutive bottoms of prices.

Uptrend When the price of a security or the overall market is rising.

Volume Number of shares traded in a security or market in a given time.

Whipsaw Occurs when a trading technique produces many buy and sell signals in a small range that do not follow-thru in the predicted direction.

Online Newsletters / E-mail Alert Services / Advisories

One of the best decisions you can make for yourself, is to look for and find, a well written and researched newsletter service. Simply put, you're looking for a "stock picker" (someone who evaluates stocks). The most important aspect of choosing a service is to find one fits your personal comfort level.

There's just no need to waste any of your valuable time trying to follow a trading system that makes you feel uneasy and / or uncomfortable.

When you start looking at newsletters remember to stick to the one's that make stock recommendations on shares that trade at \$10.00 per share or less. Many of these newsletters routinely make recommendations on stocks that trade at less than \$3.00 per share.

There are many newsletters that follow companies trading in the \$1.00 or less per share range. Be sure to follow only those newsletters that make recommendations on common stocks that trade on the major exchanges. Pink-Sheet and Bulletin Board issues are acceptable although more risky.

Also, you should decide ahead of time whether or not you want follow a newsletter that advocates frequent day-trading strategies compared to a more conservative strategy that might involve buying and holding for a few weeks or maybe even a few months. Again, think about your comfort level.

If you think that day-trading stocks is something you'd be interested in just remember that it requires special tools such as real-time trading software and real-time news feeds. I also suggest that you open a trading account at a broker that offers a continuous constant connection trading platform.

All this will cost you a great deal more money compared the old tried and true buy and hold (position trading) trading strategies. Most true day-trading brokerages require a great deal more money to open an account than most conventional brokers. A requirement of \$25,000 or more is not uncommon.

Note! We will show you some simple yet effective methods and strategies that will allow you to scalp off some 1/8th, 1/4, and full dollar point or more moves on small stocks within a single day, week, or month. And, it won't require any expensive tools or high-dollar brokerage accounts.

The vast majority of the publisher's that pick stocks do all the fundamental and/or technical analysis themselves. Quite a few have an experienced staff of professionals who do all the research in-house. Many have a very good track record of picking stocks that increase in value.

Note! Even though many advisors have good track records, they can and do make mistakes. Always pick the advisor with the best percentage of winners versus losers. You pick a stock-picker just like you pick a stock. You want an alert service that fits your trading style and comfort level.

Just because your advisor has a good track record does not mean that you can sit on your rear-end and not worry about anything. You still need to do your own fundamental and/or technical analysis. This is back-up work that you do for yourself. You can never know too much!

This is where having access to all those information providers really pays off. Keep in mind that many newsletter advisors spend much of their time visiting the very companies that they recommend. Many times, they'll come away with good or bad information, that no-one else picked up on.

When you pay for an alert service, you're not just paying for a piece of paper to show up in your e-mail box. You're paying for the research and all the time spent by that advisor trying to ferret out what's really going on behind the scenes of the company's public image.

Companies will tell you what you want to hear just like people will. Those annual and quarterly report's can be sugar coated from A to Z. Things might look real sweet on the outside, while a big case of the cramps waits on the inside. This is why it pays to follow-up with your own research.

Alert services that have a good record got it by doing good research, not by being lucky. It's easy to see how having one good newsletter with a good track record can be a real plus in your investment strategy. A quality alert service can save you the time and energy required to find a bargain.

Again, don't get lazy! You can find good stocks yourself using software programs that will search out stocks that meet all the requirements that you program into it. You tell your software what kind of stock you want, and it will look for every stock that fits the profile.

Most of the newsletter writers offer their subscribers access to a special telephone hot-line service. Most newsletters are published and mailed once a month. They usually offer their paid members recommendations to Buy, Sell, or Hold specific categories of stocks.

The majority make 2 to 3 stock picks per issue. Any good newsletter will always provide information on the progress of all the previous picks from the past issues. The newsletters are all mailed at the same time. Some people get their letter in one day, while others wait 3 to 4 days, or more.

Note! It is our opinion that printed and snail-mailed newsletters have become obsolete. Waiting for your stock picks to show up via the postal service puts you at a distinct disadvantage. Every member that lives closer than you do to the publisher will get their newsletter (picks) before you do.

And, the main reason most newsletter stock pickers won't make the transition to a web-based service is because they're able to sell many of their members a telephone hot-line service for an additional \$50 bucks a year. They could put everything on a web-site and e-mail you an alert instantly. But, they won't do it until they're forced to. Competition changes everything.

Some newsletter publishers offer a special over-night mailing service for an extra charge. Again, why pay extra for a 1 day late piece of information! It's obvious that at some point e-mail and web-based services will force even the most ardent die-hard publisher to make the transition. We saw the light!

So look at the phone hot-line services very carefully. It's my opinion that they're just not as useful as they once were. Once you try an e-mail alert service with a web-based member area you'll never go back to the old way.

If an e-mail alert web-based newsletter issues a buy recommendation on a specific stock at \$1.00 a share on Friday night, every subscriber has an equal and fair chance get in at the same time at the market open on Monday.

Old style newsletters would show up on Tuesday through Thursday and you could unfairly miss the buy-in price of \$1.00 per share. All those lucky members who lived closer to the publisher got a chance to buy in early at a cheaper price. This usually drives the share prices higher before all those unlucky members get a chance to enter the market and place a trade.

Let's say that you place an order to buy a 1000 shares at \$1.00 a share. You place the order over the weekend. Let's assume that you get 1000 shares at the \$1.00 price on Monday. If you got your newsletter Tuesday and the price is up just 1/8th, then you'll pay \$125.00 more for the order.

That \$125.00 is lost money due to old information! If you miss a recommendation to sell, or a "Do Not Buy" recommendation, you could loose much more due to people selling off shares to get out. Old information is becoming very expensive.

The hot-line can make the newsletter publisher a very large sum of money. That's precisely why they do not want to make the transition to e-mail alerts and web-based content. They will not sell you the telephone hot-line service by itself. You must buy the late obsolete newsletter to get the hot-line!

When we started our service we considered fax alerts, telephone hot-lines, and e-mail alerts. E-mail alerts made the most sense. If we ever decided to launch any of the other two options we would not make buying a newsletter mandatory. To do so would be blatantly unfair to any and all subscribers.

There's something else we need to discuss. Some newsletters make one (1) recommendation a month. Others make 4 or 5 a month, or as many as 10 to 15 a month. Many only make 7 or 8 recommendations a year. There's no set rule when it comes to how many is enough.

I personally just can't imagine, how any newsletter writer, could expect any investor to purchase 4 or 5 stocks at one time, much less 10 to 15. I would only subscribe to newsletters that recommend one (1) stock, or 2 to 3 stocks a month. This is what I would feel comfortable with.

Look at it this way. Which one of the stocks recommended is the best one to buy? Which one should I load up on? Which one has the most or least amount of risk? Which one, which one, which one? Yes, I realize that the research can indicate that each one could be the "stock-of-all-stocks".

But be realistic! Most people just can't afford to buy enough shares of each stock that gets recommended, and even if they could, I would not suggest doing so. What happens when the next issue comes out? Do you dump what you brought the month before and start all over again?

Are the picks listed in the new issue better than the stocks in the issue from the month before? These are questions that any normal person might ask themselves. Human nature is such that our curiosity can drive us sometimes to make hasty decisions that are not well thought out.

You have to strike a reasonable balance when it comes to newsletters. The best way to do this (in my opinion) is to ask around or spend some time on the Internet doing comparisons. You need to face reality when it comes to your financial and emotional state of mind. Know your limitations.

Understand fully how much risk you can tolerate on a day to day basis. If you're the conservative type, and you don't enjoy risky ventures, then by all means stay away from newsletters that encourage day-trading or high risk momentum trading strategies.

On the other hand, if you're a roll the dice kind of person, I doubt that you'd want to subscribe to a newsletter that followed one stodgy old stock for the entire year. No matter what type of personality you are, I would suggest that you try to reach that happy balance that fits your style.

Make a decision as to what type of stocks you want to follow. That could be big Blue Chips, small caps, technology stocks, regionals, bio-techs, turnaround stocks, takeover candidates, energy stocks, or whatever. Of course, we'll be following low-price stocks, so that narrows things down.

Make sure that the market letter that you subscribe to will be following the markets that you want to trade in. In the U.S. that would primarily be the New York Stock Exchange, the AMEX, and NASDAQ markets. Don't buy a newsletter that makes recommendations in markets you don't follow.

Be sure that the newsletter writer's investment philosophy matches your own. The writer's personal outlook (on life in general) will also play a big part in whether or not you will be happy with your decision. Each advisor has (his or her) own distinct character traits

These traits will exhibit themselves in the overall investment strategies put forth by writer. You'll either feel comfortable with the writer or you won't. Go ahead and bite the bullet and order a subscription to a newsletter alert service and pay close attention. A hundred bucks a year (or so) is dirt cheap!

Also know that most newsletter writers may take positions in the stocks that they recommend to you. Yes, they sometimes buy shares in a stock that's about to be recommended in the upcoming issue. They usually buy—in two or three weeks before the recommendation goes out, maybe earlier.

This usually gives the share price time to settle back down after they've made their purchase. If this type of behavior bothers you, then I suggest that you just get over it. It's a fact of life and it's not gonna change. I'd do it, you'd do it, and so would everyone else. So don't lose sleep over it.

Look at it this way. Somebody owns the stock no matter what price it is. I look at it like this. They're putting their own money where their mouth is. When and if the price of the stock goes up, it's always up to you to make the final decision as to when to get out, right? Yes, that's exactly right!

It's possible that the newsletter writer could buy in early and get out with a quick 1/8th, 1/4, or 1/2 point move. But guess what .. so can you! A newsletter like ours has a big subscriber base, or a big following of traders. This can propel a stocks price upward when everybody starts buying in.

Many times this buying momentum can propel a stock to new highs. If you know the trading pattern of the stock you'll always feel more comfortable about making decisions as to when to get in or out of that stock. A big subscriber base does not automatically mean that every pick goes up!

We'll go over this in more detail later when we cover placing trades and trading strategies. If you watch the TV financial news channels, you'll sooner or later see a news flash about a stock being up \$10.00 to \$20.00 a share in one day, based on the recommendation of some alert service.

It happens all the time. It could happen to you or me (I hope). One thing's for sure. If you don't have money in the market it'll never happen to you! I believe that having one good newsletter or alert service can be one of the best financial moves that you'll ever make.

Remember! We do a great deal of work searching out specific companies that meet a pre—defined criteria. It's hard to put a price on the true value of a newsletter. All you have to do is spend a little time trying to do research for yourself to realize that the small price you pay is a real bargain!

Sooner or later you'll read a story or hear someone say that stock pickers aren't worth the paper they write on. You'll hear that newsletters just don't perform any better than the major stock indices. This all depends on how you work the math.

There are newsletters that do nothing but rate other newsletters. They lump as many as 100 to 150 newsletters into one or more groups, and then they rate these groups by making a comparison to a particular market sector or a group of securities in a sector.

It's easy to lump a bunch of newsletters together and make a comparison to some well known index fund. What these ratings fail to show is how these newsletters measure up on a stand alone basis. Recently some rating service's have begun rating by using "best in category" sectors.

This is much more helpful and definitely a much fairer way to evaluate a newsletter. I think there's a much simpler way to solve the problem of choosing a newsletter. Just look for performance. **Note!** We've heard that some newsletters have to pay a fee to get a good write up or a good rating.

This blackmail pay-off system effectively renders the pick rating process to a totally useless and dishonest state. Many of these rating services also do reciprocal advertising swap deals with each other. Simply put, they scratch each others back. How can anything they say in print be believed.

Most people buy newsletters to get a continuous source of investment ideas in areas that they're keenly interested in. Most people who read newsletters sometimes do their own stock-picking. The newsletter simply provides a steady stream of investment ideas from which to choose.

Investment newsletter writers try to forecast the future. That's a big part of what you're paying for. The advisor alerts you to stocks that are about to have a change of fortune. A correct forecast on just one stock, in just one issue, can make you a ton of money.

And finally, keep in mind that when you subscribe to a newsletter you'll be in good company. People that read and follow stock market newsletters fit every imaginable profile. Rich to poor, skilled and unskilled, male-female, you name it. Everyone wants to make more money. It's the American way!

" Please Recommend Us To Others "

... About Us ...

Roller Coaster Stocks is our #1 stock pick anchor site.

We are incorporated as:

World Wide Web Stock Alerts, L.L.C.

We (World Wide Web Stock Alerts) own a large number of registered domain (www) stock market web-sites. The sole purpose of owning multiple sites is to direct traffic back to our "Roller Coaster Stocks" site. We have made a long term financial commitment to expanding our web presence on the Internet. We are here to stay, period ! We are the most popular stock pick site on the Net according to the latest search engine statistics and rankings.

While no online or printed stock pick newsletter service can guarantee results and/or pick all winners every time, we do guarantee our commitment to continually strive to do exactly that .. pick consistent winners!

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(plus many many more registered sites).

The Trading Plan

Yes gang .. It's lock and load time! Time to search for your first great low-price stock. Before we take aim and pull the trigger on some poor little unsuspecting stock, we need to be sure to stick to our game plan. This always includes doing all of our research before we buy anything.

The major risk (in buying stocks) comes in not doing all of your research before investing your money. This is a very true statement. Don't ever forget it. The amount of time it takes to check out the stocks you want to buy, will be time well spent.

As we said at the outset, we'll be focusing on stocks that trade in the five dollar or less range. We'll be looking at stocks that meet the fundamental requirements that are necessary to sustain solid and steady growth well into the future. This is a wise course even for short term trading.

We're looking for stocks that have a verifiable trading history, good sales or earnings, good management, and great products. If these stocks have a price history of cycling up and down off a 52 week low base, then that's just icing on the cake. We'll take a big slice.

Many low-price stocks exhibit all the good traits and solid fundamentals needed to sustain solid and steady growth, yet they never seem to move out of that up and down cyclical price range. Well guess what? That's just great! We'll buy in at the 52 week low and sell out near the top.

You also want to focus on low-price stocks that have new product lines, new technology, new management teams with great track records, and any other news that might send the stock to new highs. Once a major brokerage recommends these stocks a buying frenzy moves the price up.

Once you start receiving your monthly newsletter, you'll have plenty of stocks from which to make a choice. Always do your fundamental analysis for each stock you consider buying. You can use your technical analysis software to do basic price and volume charting for back-up support.

Always read the company's annual report before you make your final decision on buying any stock. This is "must do" work for each stock.

Let's go over it again. It's important. Get copies of the company's annual report. Investment firms on Wall Street are experts at reading between the lines of the annual report. These reports are highly polished to gloss over any company rough spots. Reports try to present a pretty picture.

You can contact the company directly to get a copy of the annual report. Always request the last two or three issues. Compare their goals from the previous year against the actual performance for the following year. Two sections of the annual report require special attention.

Go directly to the chief executive's report and the consolidated balance sheets. The CEO addresses the company's performance and intentions. The balance sheets spell out exactly how close to achieving all those intentions the company may actually be.

Balance sheets reveal the company's assets and liabilities. The total assets divided by liabilities gives the "current ratio," a benchmark used by many analysts for determining the financial health of a company. A ratio of 1.5 to 1, or 2 to 1, is generally regarded as acceptable.

A lower ratio is a warning sign that the company's debts could sink it, or that it is seriously under funded. Look for entries in the income column which read "extraordinary" and "non-recurring" gains. This might indicate assets are being sold to cover losses.

The next thing to check is the income statement. If sales have been flat while profits have risen it might indicate emergency asset stripping. You should always check the footnotes. The SEC requires that companies spell out how the accounts have been prepared.

They do this because some corporations inflate earnings by including sales even though the money has not been received. This is made clear in a small-print footnote. Finally, look at the auditor's statement. Usually it's brief, unless it contains disclaimers, which should set off warning bells.

You can obtain annual 10K and quarterly 10Q reports directly from the SEC. The fastest way to do this is to get on your computer and go to the SEC site. It's ... (<http://www.sec.gov>). You'll find background information on all the key players in the company.

I like to use charts and graphs to show price and volume patterns on the stocks that I'm considering buying. I like to look at about three (3) years worth of history on these stocks. This gives me a "seat-of-the-pants" gut feeling for the price and volume swings that the stock goes through.

There's really nothing scientific about looking at history charts. The past performance is a very useful tool when it comes to making your mind up about buying or selling any stock. This is especially true when searching out low-price stocks that move up and down off a 52 week low price.

Note! If you decide to get into technical analysis (not required) of the stocks you want to trade, you need to remember one thing. Many times technical analysis trading systems recognize a trend (momentum, etc) and issues a buy signal after a stock has already moved off the 52 week low.

If it has already moved up an 1/8th or 1/4 point before you get a buy signal, then you've missed a very significant amount of profit. You don't need technical analysis software to figure out when to buy a low-price cyclical stock that has a history trading up and down. You can do that.

Many of the low-price stocks that get recommended in your newsletters will not be stocks that cycle up and down. Quite a few will be stocks that are young companies with brand-new technology and products. The only problem they have is that they've not yet been discovered or promoted.

Using technical analysis on stocks in this category is much more useful. I've found that these stocks do not exhibit a long history of repetitive price swings. You can be assured that a good newsletter advisor that follows and recommends these type stocks has done quite a bit of research.

The upside profit potential these young undiscovered companies can be just as explosive as any of the stocks we'll follow that trade up and down off their 52 week low price. Again, no matter which type stock you buy, or which trading system you use, always study the fundamentals first.

You could end up buying and selling one low-price cyclical stock over and over again. You buy at the 52 week low, sell at or near the 52 week high, and wait for it fall back again, and then start all over. At some point in time, one of these same stocks can and will, take off to new highs.

When you make a stock purchase you need to have some idea about how you're going to enter and exit the trade. What this means is that you need to make up your mind as to whether you plan to take a quick profit on the first little move, or whether you'll hold on for a longer period.

The main reason that you're investing in low-price stocks is that you'll be controlling a large amount of shares. This is how you multiply your profits. Another equally important reason is that low-price stocks can double or triple in price much easier than an expensive stock.

A stock that cost just \$0.50 per share can move to \$1.00 per share much easier than a \$50.00 stock can move to \$100.00 per share. The \$0.50 stock that moves to \$1.00 is a 100% move. Always think of your profits in terms of a percentage. Very few investments make 100% moves.

It's not uncommon to see many small stocks make price moves of 200%, 600%, 1200%, and higher. Like I said earlier, if you're not invested it'll never happen to you. By owning large numbers of shares you're putting yourself in a position to make big profits on small moves.

If a big expensive Blue-Chip stock jumps up a quarter or a half a point in one day, that's just not a big deal to folks like us. Most people can't buy enough shares of an expensive Blue-Chip, for even a two or three dollar move, to make them any real money.

\$5000.00 buys 5000 shares of a \$1.00 stock.
5000 shares X a \$0.25 price increase = \$1250.00 profit.
\$1250.00 profit divided by the \$5000.00 purchase price is a 25% return.
This does not reflect the few bucks it takes to buy and sell the stock.

Where else can you get 25% on your money? Where else can you get 25% on your money in just a few days, or a few weeks, or a few months? That 25% could just as easily have shot-up to 100%, 600%, 1200%, or more, in a very short period of time.

It's very easy to see that owning low-price stocks is one of the best ways to increase your wealth within a realistic period of time. If you'll always do the fundamental analysis before you buy any stock, you'll greatly reduce the possibility (although not completely) of taking any big losses.

Once you've picked out and analyzed some stocks to buy, be sure to remember that stocks trading on the New York Stock Exchange and the American Stock Exchange, are quoted at just one (1) price. That's the price you'll pay to purchase the stock.

Over The Counter (OTC) stocks have a "bid price" and "ask price". If you want to buy the stock you pay the ask price. If you want to sell the stock you pay the bid price. The difference between the bid and the ask price is called the "spread".

The spread amount can be an indication of how actively the stock trades. A small \$0.03 spread is an indication that the stock trades very actively. Simply put, this means that if you wanted to sell the stock immediately after you purchased it, you'd get \$0.03 less than you paid for it.

Always avoid buying OTC stocks that have large price spreads. A large price spread indicates that a stock (is not) traded very actively. This is easy to remember. Just look at the spread and tell yourself that that's the amount you'll give away the minute you buy the stock. It works every time.

Here's a good "rule-of-thumb" for acceptable OTC stock spreads.

Stocks costing \$0.125 cents to \$0.25 cents	\$0.03 cent spread.
\$0.26to \$0.75 cents	\$0.03 to \$0.06 cents.
\$0.75to \$2 dollars	\$0.06 to \$0.125 cents.
\$2.00 and up	\$0.125 to \$0.25 cents.

Again! Stay away from stocks with big spreads. Warning bells should go off the minute you see it. It's your money. Don't throw it away.

We want to buy and sell stocks that trade on the three major exchanges. We're only gonna buy a low-price stock that makes a profit, has good sales, great management, trading at or near it's 52 week low, with good fundamentals.

The exception to this, will be young undiscovered growth stocks, that are about to announce new technology or new products, that could propel the stock to new highs. But even these stocks must meet all the basic fundamental requirements that we would use to scrutinize any stock.

I said earlier, that you needed to have some idea as to how you wanted to approach each trade that you make. This is nothing more than making a decision to get out early with a profit on a small move, or just simply hanging on for awhile, because you've got faith in the stock you picked.

Let's say you buy 5000 shares of you favorite stock at \$1.00 per share. If you sell out at \$1.125 (1/8th point more than you paid) you'd make a profit of \$0.125 cents X 5000 shares which is \$625.00. Your stock could move up 1/8th point within 30 minutes, 1 hour, one day, or one week.

Let's say that you sold out on the third or fourth day or maybe even the third or fourth week. That \$625.00 ain't too bad. That's 12.5% on your money in just a few weeks. Many times the stock will move up real fast because all the newsletter subscribers are diving in and buying stock.

It's not uncommon for stocks to move up a full 1/4 to 1/2 point soon after a newsletter or hot-line issues a buy recommendation. A 1/2 point move would have been a \$2500.00 profit instead of just \$625.00. It's also quite common for these stocks to fall back to the recommended buy-in price.

I've purchased stocks that went up like this many times. I've also taken a quick profit (like the \$625.00 above) and just waited for the stock to come back down again. I don't mind buying the same stock back again because I thought it was a good stock to hold on to, to begin with.

You can use the \$625.00 profit to buy more shares when the price falls back down, or you can go buy a new color TV. It's up to you. Quite a few of these low-price stocks regularly cycle up and down as much as \$0.50 to \$1.50 per share. Some of them do this 2 to 3 times a year.

You can put yourself together a qualified list of 10, 20, or 30 stocks, that have a history of trading up and down this way. When one stocks goes up and you take your profit, you'll just go to your list of stocks and look for another one that's trading at the 52 week low, and you'll buy in again.

You could also hold on to the same stock until it approaches that regular 52 week high. It might take 3 or 4 months, or as long as 6 or 8 months to get there. If you sell 5000 shares at a \$0.75 cent profit, that's \$3750.00. A \$1.25 profit gets you \$6250.00. Just think if you had 10,000 shares.

Buying low-price stocks that cycle up and down on a regular basis is one of the oldest and most reliable ways to make money in the stock market. It's a very simple system that anyone can understand. The risk factor is very acceptable as long as you do your research.

The second part of our trading system involves the process of using your technical analysis trading software to track and trade stocks. I said earlier that using technical analysis software is not necessary to trade stocks. If you decide to use this type technology that's just fine.

Just remember that many (if not most) of the trading systems used in technical analysis is based on some sort "Momentum-Recognition" factor. This simply means that the software is programmed to recognize that the stock is in motion based on volume or price fluctuations or other factors.

Many times the stock has already made a move upward before you start buying in. The game plan here is to jump on the moving train and ride the surge of "momentum" as far forward as you can, and then jump-off or sell out, before the train slows to a stop.

If you use technical analysis trading systems to buy and sell stocks, you'll need to follow your stocks very closely. The software that I recommended earlier allows you to monitor every tick-by-tick move of any listed stock that you might be following.

You can program your own custom formulas, or you can buy a trading system designed by professional traders. You simply take their trading system formulas and incorporate them into your software application. All the good trading systems have been back-tested for accuracy.

Many newsletters writers use technical analysis to pick and choose the stocks that they recommend. Once you get some experience buying and selling stocks that regularly trade off a 52 week low, you might want to try your hand at some momentum trading. It's riskier, so be very careful.

Be absolutely sure that before you start exploring the possibility of using technical analysis, you get your hands on and read, a good book on the subject, like the one's I mentioned at the beginning of this manual. You should always practice trade before you ever jump in and spend money!

Let's devote a little time to a term known as "day-trading". A day-trader is a person who's goal is to make his or her profits from the purchase and sale of a stock in the shortest amount of time (preferably a single day). These are usually, but not always, trades made on "momentum" stocks.

Day-traders go for quick in-and-out gains, and lots of them! A day-trader might use technical analysis software and real-time financial news stories, from the online service providers or TV networks, to find a stock to buy. They dive in and buy a lot of shares hoping for a quick price increase.

They're willing to take a small 1/8th or 1/4 point upward price move on a stock in just a matter of hours (hopefully minutes) for a small but quick profit. Of course that small profit, might not be that small. The size of the profit depends on the total number of shares purchased.

It usually takes some really good late breaking news to make a stock start to take-off on a fast upward move. This can be in the form of a great 10Q report, or a great report on a new product, or even a recommendation in a newsletter. Day-traders look for news that causes quick movement.

Your technical analysis software can identify price and volume changes in the trading pattern of a stock. Sometimes these unusual changes will cause your software to issue a buy or a sell signal. Your software can recognize a trend developing and alert you to make a decision.

The key word to describe day-trading is be "nimble". Most investors buy stocks with the expectation of holding on for a reasonable length of time for a hefty increase in share price. Not day-traders! These folks think that a hour is long time to wait, and all they want is a small move.

Day trading schools have popped-up all over the country. Many people learn to day trade with the expectation of making it a career. It's not at all unusual for someone to pay \$4000.00 to \$5000.00 tuition to go to a two to four week school that teaches day trading.

Day traders can make large amounts of money by making a lot of trades. They give up the big moves that take longer in exchange for smaller sized profits on a higher number of trades. This only became possible within the past few years due the lower trading cost at discount brokerages.

There are also brokerage house's where you can open up an account to do nothing but day trade. It normally takes \$25,000 to \$100,000 to start trading at one of these firms. The main difference between these firms and others is that you'll be trading on the state-of-the-art SOES system.

This is the Small Order Execution Market. It was put in effect in 1985 and made mandatory for use by all market-makers after the 1987 stock market collapse. This system allows the small trader to execute a trade without being subject to any market-maker misconduct.

There is no discrimination in filling orders with this system. You trade on a level playing field. This is true for large or small traders. All bid/ask prices on listed stocks are electronically posted on a computerized electronic order system. You can have an order executed in a matter of seconds.

SOES traders make their money by monitoring the spread prices posted by market-makers. If one market-maker shows a bid/ask price that's lower than another market-maker, then the SOES trader will buy at the posted low price and immediately sell it to a maker with a higher posted bid/ask.

This is instant trading. All you do is push a button. Most of these SOES trading firms have 20 to 30 on-site computer trading terminals. You pay your money to open an account, you watch other people trade while you go through the learning process, and then you sit down for your turn.

I'm not a gambler. Buying and selling small stocks is a calculated risk that I find acceptable. SOES trading is a little too much like Las Vegas if you ask me. The reason I mention this type trading at all is that you need to know what's going on in the market.

You could end up being very good at this type trading. Many people have made large amounts of money doing this. It's not uncommon for a trader to sit at one of these day trading firms and make 60 to 70 trades a day. Profits vary from \$125.00 to \$250.00 on a typical good trade.

Not every trade is a winner, but on average, the good traders average as high as 75% winning trades. The main reason it takes so much money to get started is that most of the traders follow the higher priced stocks. It takes a lot of money to buy a lot of shares, so think long and hard.

If you're interested in finding out more about day trading, I suggest that you get on your computer and go online. Use one of the major search engines to look up "stock market day trading". You'll find plenty of good information. Some day trading firms have offices all over the country.

I fully expect that in the near future, we'll be able to get remote access to this type trading from home, on our personal computers. Technology is changing very rapidly. You can expect the stock market to change with it. Trading stocks has become a simple process with computer technology.

Back in January of 1997 NASDAQ made some rule changes that effected SOES traders. This rule change effectively took away the "edge" that SOES had. Market makers are now held to 100 share orders and can block SOES orders at will.

Most of this will be accomplished by simply bettering the market on the Instinet system. To make a long story short, the market makers got just what they wanted. This fight ain't over, and that's for sure. There's been talk a 20 second rule that many say will turn back the clock to pre-1987.

Who knows? One things for sure, you can still day trade. I've purchased a stock at ten in the morning and sold it by lunch time. Does this make me a day trader? Technically speaking, I guess it does. The principals never change. If your stock goes up quickly, it's up to you to sell or not.

While we're talking about day trading and the SOES market we might as well talk about just how powerful a force that "news" can be. Back in 1996 the Nasdaq Stock Market proposed a special rule to control the volatile computer trading of stocks mentioned on daily financial TV shows.

A guy named Dan Dorfman would go on CNBC and give stock tips and wall street gossip, about everything from takeovers to changes in the corporate management, etc, etc. His broadcasts had a tremendous effect on the stocks he mentioned. I remember stocks moving almost instantly.

The Nasdaq proposal is the third time a financial market has proposed a rule to control the effects of Dorfman's comments. Day traders waited all day long for his show to come on. Nothing moves the market like news. You'll see. Just hope it's good news and that you're holding the stock.

Trading Strategies

Let's discuss some of the better known strategies experienced traders and beginners alike can use to improve their trading results. Some of the terms used in this section will be covered in greater detail later. Many of these strategies apply to buy-and-hold as well as short term trading.

Patience – This is probably the most important as well the hardest trait for most investors to learn. I can't tell you how many times I've watched a stock make a move that would have made me money, had I just waited. I've felt like kicking myself many times because I failed to wait things out.

Emotions – You have to learn not to panic when you witness a fluctuation in the price of your stock. It's hard to do sometimes. You have to be wise enough to step-up and buy when others are selling and realistic enough to sell and take a profit when everyone else is in a panic to buy in.

Remember Bid/Ask – Always remember to watch the spreads on stocks that trade with bid/ask prices. Stay away from stocks with large spreads. Look for stocks with small spreads. Big spreads are an indication that a stock is very thinly traded.

Market Orders – You should remember that when you place a market order to buy or sell a stock you are giving your permission to buy or sell at the current bid or ask price while the market is open. This is not the current price at the time you give the order, it's the price when the trade is actually made. This means that there will be times that you won't get a price that you might expect. If the trade you want to make is a large block of shares (say 1000), part of your order might fill at one price and the rest of your order might fill at a worse price.

Market-makers set their bid/ask prices and also set how many shares the price is good for. You might get 500 shares executed at one price and the other 500 at another price. I don't use market orders very often. If the price of a stock I want starts moving quickly, I might use a market order.

I never place a "buy" market order at the morning opening of the market. It's a sure bet you'll pay the high price due to pending over-night orders, but keep in mind that this is sometimes a good time to place a sell order.

Limit Orders – I just about always try to use limit orders. A limit order is an order to buy or sell a stock at a price you specify or better. If you buy the stock, the ask price must be at your price or lower for the order to fill. If you are selling the bid price must be at your price or higher to fill.

I feel that limit orders are the best type to use when placing orders for low price stocks. You always know that your order will not fill at a worse price than you might expect. The worse case scenario for using limit orders is that your order might not fill at all.

The best way to get a limit order to fill quickly is to place your order at the current bid or ask price (depending on whether you want to sell or buy). Orders placed this way usually fill very fast. If your order failed to fill right away you can assume the price changed before the order was entered.

If you miss your order due to a quick price change you can cancel your old order and enter a new order. Bid/Ask prices can whipsaw back and forth many times during a single day. You can stay on top of this type of situation by regularly monitoring the bid/ask quotations of your stock.

Reverse Psychology – Many times you'll be faced with making decisions that might seem a little illogical at first glance. Sometimes you'll buy a stock when the average investor is selling and driving the price down and then selling on good news while others are buying in at inflated prices.

Stop Loss Orders – I don't use stop-loss orders unless I'm in the money. This means that I've already made some profit. Stop-loss orders are a sure way of selling at a loss. You would place a stop-loss order after your stock has moved up to the point that you might consider selling it.

All this order means is that your stock will automatically be sold when the price falls to the level at which you placed the stop-loss order. This is a very good way to protect the profits that you have in the stock. You can check your price charts to get a feel for how your stocks price fluctuates.

If your stock rises to \$3.50 you can enter a stop-loss at about \$3.125. Don't put your stop-loss too close to \$3.50 if you think the stock might be moving higher. Stocks often fall back off their highs a 1/4 to 1/2 point or more before moving to newer highs. If you're too close you'll stop-out.

Dollar Cost Averaging – This is one of the oldest and most reliable of all plans to make money in the stock market. All you do is invest a constant or fixed amount of money into your stocks over a long period of time, no matter what price the stocks are trading at.

Let's say that you have \$500.00 to invest each and every month. You would simply invest that amount into your stock every month. When the price of your stock is high you'll get fewer shares. When the price falls to a lower level you'll get more shares.

For this method to work you should not invest in any stocks that are in a steady and continuous downtrend. You want stocks that exhibit steady growth characteristics. You should always diversify your portfolio. This means that you should put your money into more than one stock.

You also must be willing to put the same amount of money into all of your stocks each and every month, no matter what. The idea is to sell off your stocks in future years when your stock prices are high. Remember, you should always diversify. Don't put your whole nest-egg into one stock.

Averaging Down – Many traders say that this is a no-no. They say that if your stock starts to fall you should take your loss immediately and move on to the next one. They refer to these stocks as "dogs". This routine might be correct for day-trading purposes, but it's not always correct.

Averaging down is simply buying more shares of a stock that you already own when and if the price falls lower than what you first paid for it. You're buying more of the same shares at a lower price. Some people say that this is throwing good money after bad. Not necessarily!

If you did your homework and picked a stock that exhibits all the good fundamental traits needed for growth and share price appreciation, then I'd say that your stock is a good candidate for averaging down. It's not at all unusual for a good stock to temporarily fall below the 52 week low.

If your stock has a long history of cycling up and down off these high and low prices and the fundamentals still look strong, then go for it. Look at it this way. When the new lower priced shares move back up you'll have a profit that helps lower your break-even point on all the other shares.

Bottom Fishing – It's been my experience that the best way to get a good price on a stock that you've picked out is to put in a limit order at a price that's lower than the current ask price. If the stock you want is trading at \$3.00 a share, put in your limit order at \$2.75 per share, and wait it out.

This is where patience pays off. The price of a stock can move up and down many times during a single day. If you place your order ahead of time and let it sit, it will fill when and if the price falls to the level you want. This won't work every time, but when it does it's a good feeling.

Other Useful Limit Orders – There are other types of limit orders that fit our trading strategy. A GTC order means (good till cancelled). A "Day" order means (it's good until the end of that trading day). An AON order means (all or none) of the shares you want.

If you want your entire order to fill at one time use a AON order. This will prevent partial fills (part now, another part later). A partial fill also means that you pay a commission (broker fee) on each partial fill. The market makers aren't required to fill all of your order at once. AON prevents this.

Selling – I believe that selling is much harder than buying for most people. When a stock starts to move up most people tend to get a little greedy. They tell their friends that they've got X number of shares of a great little stock and they brag about how much profit they have.

They get quotes all day long and start dreaming about how they're going to spend all that money they're making. They forget that a stock can go down just as fast as it went up (sometimes faster). Smart traders set a price in advance at which they're willing to sell the stock if it goes up.

Most of the stocks that we'll follow fit into that 52 week high, 52 week low, trading pattern. We know in advance that we want to (sell-out) at or near the 52 week high. It's very possible that the stock you'll own could go well past that 52 week high and reach all new unexpected highs.

Using a GTC order is a good way to sell a stock. If the stock price moves up to your order price (even if just for a few seconds) it'll fill, because it's "on the books" in advance of the price move. You need to start thinking about selling your stock the minute you buy it.

If I own stocks that fall into the fast moving "momentum" category, I'll be ready to sell immediately on any upward move that comes along. This could also be true for any type of stock that I own. If you decide to take a small profit and the stock goes higher, don't let it bother you.

Some people call this "leaving money on the table", but not me. I call it making a profit period, end of story! If the price falls back you can buy it again, or you can find another stock. There's no shortage. A small profit is always better than no profit, or worse yet, a loss.

If I own stocks that fall into the (52 week low–52 week high) category, I'll use a different strategy. This is where the stop–loss order comes into the picture. As I said earlier, I start thinking about selling immediately. The stop–loss order is used to protect your profits once the stock price is up.

I put the stop–loss order in place once I'm solidly in the money. Everybody seems to do this differently. Start thinking about doing this once you have a good profit built up in the stock. As the stock price starts moving up, all you have to do, is place a new stop–loss right behind the new high price.

Keep doing this right up the ladder, all the way to the peak, no matter how high it goes. If you let the stop–loss order sit, and wait for the price to fall back so that you stop–out, you'll miss selling at the new high. The stop–loss allows you to ride the price up higher than you normally would.

Stocks tend to fall back to a base price in even dollar amounts. A stock trading at a high of 3–1/2 (\$3.50) might bounce back and forth between \$3.25 and \$3.50 before settling down to a base price of \$3.00. Enter a stop–loss at uneven dollar amounts behind the base price. Say \$2.88.

And remember! If you just can't stand the pressure any longer, you can cancel the stop–loss and enter a order to sell your stock at the current new high price. There's nothing wrong with protecting your profits. Using stop–loss orders is like having "profit insurance".

When I look for stocks that trade off their 52 week low I want to pick the one's that move up as much as 100% or more. If the stock has a history of falling to a 52 week low of \$1.00 a share, then I also want it to have a history of 52 week highs that average \$2.00 a share or higher.

On small stocks that have a 52 week high–low price swing of 100% or more, I start thinking seriously about pulling the trigger and taking all my profits when the stock has moved up approximately 70% of the usual 52 week high. If it cycles from \$1.00 – \$2.00 I'm usually ready at \$1.75.

This does not mean that I'm definitely going to sell at \$1.75. I means that I'm watching it like a hawk, moving my stop–loss up, checking price and volume, and studying my historical price charts. Once your stock moves up, you'll become consumed with watching it. It's just human nature.

Stop Limit Order – A stop–limit order is different than a stop–loss order. This is a limit order to sell a stock at a "higher price" if or when it reaches that price at some point in the future. A stop–loss price is lower than the current market price. The stop–limit price is higher.

Split The Spread – This means trading between the spread. If the bid is \$1.00 and the ask is \$1.12, you'll try to enter your order somewhere in the middle. If you get your order filled and save six cents on 5000 shares of stock you'll save about \$300.00. That's well worth the effort.

There's a couple of ways to trade between the spread. It's fairly easy to do when the stock is trading actively. You simply enter your orders in the middle during this active period and hope that as the price bounces up and down your order will fill. It happens quite frequently.

If the stock is trading lightly you usually have to take what you can get. Another way is to have your broker put your order on what's called the "SelectNet". Some brokers will do this at no extra charge as long as your order is a large one. Most charge a fee of a few cents a share.

If you have to pay to do this, it sort of defeats the purpose. Enter your orders between the spread yourself. Just place a limit–order between the bid and ask. I've done this many times. It works quite often and it won't cost you anything extra to do it.

Always try to save as much money as you can. You'd be surprised at how much these savings can add–up to. If you save money on three or four trades a month it really adds up quickly. Trading between the spread is one of the easiest things that you can do to save yourself some money.

Patterns – It's always wise to look at (day to day, tick-by-tick) price and volume charts for any stock that you want to buy and trade. You'd be surprised at how often a stocks trading pattern repeats itself. Study price and volume charts that go back as far as three years or longer.

Familiarize yourself with the way the stock has traded in the past. This will give you a feel for the way the stock might move in the future. There's no guarantee of any pattern repeating itself, but if it does, then that's great. This is where your trading software really comes in handy.

By using your software to run charts and graphs that show day-to-day, or week-by-week trading activity, you can recognize any re-occurring trading patterns. It's not unusual to see a pattern from two or three years back being almost identically repeated in the current market.

Facing Mistakes – If you make a wrong decision then it's just wrong, so face it and admit it and move on. You can't always be right. If you choose a stock that just won't move up in a reasonable amount of time then get rid of it. If you do your research you won't have many of these anyway.

Protect Capital – Your profits aren't as important as your capital. I'd much rather miss out on a little profit compared to loosing any of my capital. If you loose a whole lot of your (trading or investing) money, then you've got to slow down or stop trading until you replenish your trading account.

Fear & Greed – For the most part greed and fear drive the markets. The average investor lets these two emotions get in the way of making good decisions. The average investor buys in too late and pays too much and then holds on too long and sells out too late with an unnecessary loss.

Daily Volume – I would suggest to anyone who wants to be a active trader in the market, that they stay away from thinly traded stocks, or stocks that have very low volume. If you buy these stocks it's very likely that you'll not be able to quickly sell, due to low volume (lack of willing buyers).

Trading Systems – (Technical Analysis) – Trading Software – You can put together a multitude of trading systems based on an infinite number of strategies and mathematical probabilities. Use every tool at your disposal to gain an edge in the stock market. If you don't, someone else will.

"There's nothing wrong with cash. It gives you time to think."

Robert Pletcher, Jr.

The people who sustain the worst losses are usually those who over-reach. And it's not necessary: Steady, moderate gains will get you where you want to go.

John Train

The Greater Fool Theory

One fool buys a stock at an all-time
high price with the hope of selling it
to a much greater fool for even more money.

New Issues

It seems like everybody on the planet wants in on every new issue that Wall Street can deliver. This frenzy to own new issues has been going on for quite some time and shows no signs of letting up. Don't go thinking that buying any new issue is a fast track to big profits. It ain't.

If you're approached to buy a new issue the first thing you do is insist that they send you a prospectus of the new issue. Never take a broker nor anyone else's word when making a decision to buy a new issue. The new issue prospectus will contain information needed to help you decide.

The prospectus will describe the company's business history, financial situation, management, potential liabilities (litigation), etc, and detailed information on how they plan to spend the money that's raised. Again, I suggest that you do your homework before you invest

The first page shows the number of shares being offered, the company name, description of the unit and it's value, SEC required risk summary, disclaimers, new issue prices and underwriter commissions, where and how to purchase the issue, and effective dates for sale of the new issue.

You should then go to the Summary. It contains:

The company's business background, services offered, and product lines.

The explanation of how many shares are being offered.

An explanation of how many shares will be outstanding.

Details of how the proceeds (money raised) will be used.

The proposed symbol for the stock (WXYZ).

Selected financial information for past three years or longer.

Review of the management.

Disclosure of any litigation (lawsuits).

Disclosure of management salaries.

and the SEC required outline of any risk factors.

Spend just as much time analyzing a new issue as you would any other stock. You have to be on the lookout for any hanky-panky with a new issue, just as you would with any other stock you'd consider buying. The interest of the stockholder is not always of paramount importance.

Always be suspicious if someone tries to get you to hurry-up and invest in a new issue without first providing you a prospectus to read. I would make sure that the prospectus calls for the company to give at least 40 to 60% of the initial offering to the general public.

I would not invest in any new issue that plans to use the proceeds from the offering to repay any loans from the management. This is a sure sign that the company is more interested in the welfare of the management and not the stockholder.

You should absolutely review the management's background to be sure they have the experience necessary to run a successful company. Make sure that the management personnel are going to devote 100% of their time to running the company.

Make sure the company is not involved in any major legal actions that might affect the success of the company. Check management salaries. I like to see modest salaries with bonus incentives for meeting goals. If it looks like everyone in management has a cushy deal, stay away!

I'm not real keen on new issues. I've always felt that the lucky few and all the privileged insiders that got the stock at fire-sale prices, were the only sure winners. This is not to say that you can't make good money with a new issue. You can. Sometimes quite a lot.

I'll readily admit that some very serious money has been made in the new issue market. Most of the stocks we'll be following went public and soared to high heaven. I'd much rather follow a stock that has based-out and is trading in a somewhat predictable manner.

Never pay more for a new issue than the price that it's first offered. Most new issue buyers hope for a big, quick move, so they can jump back out. Quite a few new issues take-off like a rocket to unrealistic highs, only to fall back to more reasonable prices. Most are overpriced anyway.

Never invest any money in a new issue that trades in the "pink-sheets". Make sure that the new issue will be listed on one of the major stock exchanges. If it's on a system with lesser requirements than NASDAQ's, don't buy it.

Bankruptcy Stocks

Investing in stocks that are going into or are emerging from bankruptcy can be very profitable. Chapter 11 bankruptcy laws allow companies to be protected from their creditors while the management reorganizes and goes about the daily business of running the company.

Most investors are scared to death of the word bankruptcy. That's very understandable. To most people it means total ruination of the financial viability of any person or business unfortunate enough to be faced with it. Chapter 11 reorganization rules have put a different face on bankruptcy.

Many well known companies have made the decision to enter chapter 11 protection as a way to weather financial hardships. Chapter 11 rules give a company some breathing room (time) to reorganize and repair all the damage that's dragging the company down.

The negative connotations associated with bankruptcy protection can drive down the share price of the stock to all new lows. Many of these stocks never recover to the old trading price. Others bounce back within time, to the old price range and even higher.

Look at it this way. If the company is protected while it carries on with the reorganization of it's debt and the reduction of it's expense structure, and if sales and earnings stay steady or increase, then I'd say there's a more than fair chance the company will survive and become viable once again.

It's not uncommon to see stocks that were once high flyers on wall street trading at 25 cents to a dollar a share. We're talking about stocks that were once 20 to 30 bucks a share or more. This does not mean that you can buy in and expect the price to go back to the old high. It's not likely.

Once the company comes up with a way to pay down it's debt load and get it's problems resolved, many investors will start start creeping back in to the stock. Smart investors do their research first. If the reorganization plan looks solid and achievable the stock will begin to look under priced.

A big company that's in chapter 11 has everything in place to continue doing business as always (hopefully with more fiscal responsibility).

Wall Street usually goes into a panic mode when a well known company starts talking bankruptcy. Everybody that's holding a share heads to the back door at the same time. Again, a smart investor will watch the panic and wait out the blood-bath.

You can find stocks in chapter 11 in all of the major financial newspapers. They will have a symbol beside their listing that designates bankruptcy status. There are also newsletters that follow companies in bankruptcy. A bankruptcy stock should be researched just like any other stock.

Send off for the annual and quarterly reports. Look for large companies that have sales in the \$300–400 million dollar range. Stay away from companies that have more debts to repay than they do sales. A situation like that is very hard to overcome.

Stick with companies that were previously listed on the NYSE. The listing requirements for trading on the NYSE are the most stringent of all of the exchanges. A company with a past of trading on the NYSE is likely to be much better known than stocks trading on the lesser exchanges.

Look for companies that have well known name brand product lines and services. The product is more likely to continue to sell well even though the company is having a hard time. This can make all the difference in the world when it comes to the survival of the company.

I like to see new management come in and take over the operations of a company in bankruptcy reorganization. The company has to be turned around quickly so that it can pay it's debts. If the old management failed to make money in the past don't think they'll do any better in the future.

The new management has to be able to make the company show a profit. It's a simple concept. If the company fails to show a profit it's not very likely that it will survive to prosper again. I just can't stress enough the importance of having a good management team in place. It's crucial.

A company files a reorganization plan after it goes into chapter 11. The debtor and the creditors try to come to an agreement on how repayment of debt will occur. If everyone agrees the reorganization will be confirmed. Confirmation is positive sign. This news alone can raise share prices.

Turnaround Stocks

A company that survives bankruptcy is considered a turnaround stock. This definition also applies to well known high flying companies that have experienced some hard times which has caused the stock price to plunge to extremely low levels. Bankruptcy is not a requirement to fit this group.

The share price of these companies have usually traded at unrealistically high prices due to being promoted and hyped by the Wall Street crowd. A new product or service is usually responsible for the dramatic rise in the share price. Prices fall back quickly if profit expectations are not met.

Many times the fall-back in share price will be extreme and unrealistic. If the stock price was viewed as overpriced at its high, then it is just as likely that it could be underpriced trading at the new low. I've said it before. Do your homework. This could be a great buying opportunity.

A turnaround company with well known name recognition can soar again. The hot-shots on Wall Street already know the stock. This can be a big advantage. A little bad news can cause the herd to stampede to the exit door and drive a good company's stock right into the ground.

If the fundamentals are sound and management can correct the problem that caused the scare, then the stock stands a good chance of making a significant recovery. Many stocks go through changes of fortune many times before settling down to a trading range that's realistic.

You can find turnaround stocks in all the major financial newspapers. You can also subscribe to newsletters that follow turnaround stocks. The first step is to look for stocks that have large 52 week high and low spreads. The next step is to do the research to find out why the stock fell so low.

Just as with bankruptcy stocks, I prefer to stick with turnaround stocks that trade on the NYSE. Many people pick turnaround stocks based on the price of the stock. I agree that this is a very important factor but it's not the only one that needs to be looked at.

Look for well known companies that have high sales numbers and good management. It's very important that the company have a great product.

When a company's stock takes a nose-dive, it's usually due to some bad unexpected losses. Big losses usually lead to what's known as negative cash flow, higher than expected inventories, and big write-offs. It's very important that you check out the company's balance sheet.

It can take years for a company to straighten out all of the problems that caused the losses. The balance sheet can be turned around, but it takes time. Make sure that the stock you're looking at has corrected its cash flow and inventory problems.

Don't pay any attention to company reports that say the company is about to have a profitable quarter. Those positive projections have been known to never come true. "Trust but Verify", should be your motto. Wait until the company releases positive and verifiable financials.

These positive numbers must be from real-world day to day continuing operations. If the company shows good profits due to taking tax credits or selling off parts of the company, then don't buy the stock. This is not a real turnaround. It's just creative accounting.

I've said many times that you should never purchase any kind of stock without first doing your homework. If someone tries to talk you into buying a turnaround stock always ask for the financials so that you can verify that the company is on the path to profitability.

It takes a lot of hard work for a company to turn itself around. Make sure that you look only at companies that have the best chance to succeed. By following the same fundamental principals used to evaluate any other type of stock, you'll greatly reduce your risk.

Stay away from companies that can't obtain much needed capital directly from sales. Many companies are in fields that require large amounts of capital. Medical companies would be a good example. It takes a huge amount of cash for research and development to bring a drug to market.

Many companies that become strapped for cash will resort to issuing more shares of stock to raise capital. Without the new infusion of cash they will go deeper into debt. Stay away from companies that fall into these categories.

May All Your Gains Be Big Ones

We've covered all the basic aspects of buying and selling good quality low-price stocks. The trading process is really very simple once you get your feet wet. The more you do something, the easier it gets, and the better you get at doing it.

Trying to decide when the best time is to buy or sell a stock, is probably the most frustrating part of the investing process. I would suggest that you always concentrate on protecting your investment capital. Companies all need capital to operate, and you'll always need capital to invest.

I've always said that the most frustrating decision the average trader or investor has to make is trying to decide when to get out of (sell) a stock. There are no 100% accurate or safe ways to know a stock is at its lowest price or at its highest price.

All the million-dollar software and all the smartest newsletter guru's on the planet can't be sure of knowing the answer to those two questions. If you choose your stocks carefully and stick to the guidelines we've discussed, you'll be on pretty safe ground.

Don't ever fall in love with a stock to the point that you become blinded to stocks that might offer better opportunities. This is very easy to do. Many people will buy into and sell a stock over and over again. They follow it up and down fanatically without following any other stock.

They become consumed with a false confidence that compels them to believe that the stock will always be a winner. They fail to keep a close watch on the fundamentals and current market conditions of the stock they so dearly love. Things change. So do stocks.

Other people have a similar but more severe problem. They just fall in love with their new stock and can't find the courage to sell it for any kind of reason. They watch their stock go up and up, while they just sit there like a deer in your headlights, waiting to get run-over.

Do you want to make a profit on your stocks once they've gone up?
If the answer is yes, then you have to do one thing ... You have to take it.

It's ok to buy a stock at the low and sell at the high over and over again, but only if you monitor the company financials each and every time that you buy-in and sell-out. Don't forget that you should diversify your stock portfolio by spreading your money between many good low-price stocks.

There will be times when you might want sell your stock for only a small profit or no profit at all. Bad news of almost any sort can drive a stocks price down very quickly. This is why it's important to follow your stocks very closely.

Here's a few reasons to sell your stock (for profit and/or protection) :

If your company announces a reverse stock split I would suggest that you get out and sit on the sidelines awhile before considering getting back in. Many companies do this to raise the price of the stock. They issue fewer shares that are worth more money per share, but the price usually falls.

Another thing to be on the lookout for is the possibility of your company raising cash through an equity offering. If the company needs more working capital it will issue more shares of stock to sell to the public. This will dilute the share value and most times the stock price falls.

If the company you own starts showing large increases of it's product inventory you should start thinking about selling your shares. This is a sure sign of coming trouble. When sales are down inventories go up. Big inventories also create additional expenses for the company. Get out!

If you hear news that your company is about to merge with another you could be in for some good news. This usually causes the stock price to spike-up when the news gets out. Once the merger is announced prices will fall back to the agreed merger price. Sell on good news for a profit.

If you find out that another company has made an offer to buy your company's stock at a lower price then get out. The company that made the offer must think that the lower price is the true value. If your company accepts then they must also think that it's only worth that much. Get out.

If you find out that a warrant is about to expire you should also get ready to sell your stock. Let me take a minute to briefly describe a warrant.

A warrant is a certificate entitling the purchaser to buy a specific number of shares of the company's common stock at a specified price in a clearly defined period of time, or for perpetuity. People usually buy warrants if they feel the company's stock will rise in the future.

Warrant holders exercise the warrant to purchase more shares of the company's stock when the stock price is higher than the price the warrant offers. Some companies hype their stock to get the price up so that the warrants get exercised. The stock price usually falls afterward. Get out.

We've just covered some of the more general rules that govern selling a stock, but what other factors can influence the stock market and your trading decisions. Let's briefly discuss six market indicators that can be of vital importance to all investors.

One of the best known indicators is the (GNP). The Gross National Product measures the activity and market prices of all goods and services produced during the year. The GNP describes our economic condition and indicates which direction it's headed.

The Consumer Price Index (CPI) measures changes in consumer prices based on a monthly survey conducted by the U.S. Bureau of Labor Statistics. They monitor changes for food & beverages, housing, clothing, personal items, transportation, health care, entertainment, and energy.

The Producer Price Index (PPI) measures changes in wholesale prices of products and services. All the calculations are released on a monthly basis by the Bureau of Labor Statistics. Prices are measured as products move through the manufacturing and distribution stage to the consumer.

Interest Rates have a tremendous impact on the markets. When demand for money increases, interest rates rise. As the rates rise the demand declines. When people borrow less the supply expands and interest rates start to fall again. Business likes to expand if interest rates are low.

Inflation has an impact on the markets also. Inflation is a condition that occurs when prices rise resulting in your not being able to purchase as much for your dollar. The Federal Reserve Board frequently changes interest rates to restrain inflation.

The unemployment rate is another widely followed indicator. The Bureau of Labor Statistics conducts a nationwide random survey to determine the unemployment rate. High unemployment is negative for the stock market. A five to seven percent rate is considered to be good for the markets.

Let's move on to another topic. That's volatility. This is nothing more than the movement in the price of a stock. A volatile stock is usually thought of as one that trades erratically with big swings from high to low prices. Gold stocks with a high following of traders is a good example.

The volatility can be the result of good or bad news. News moves the markets. You can't make money if you buy a stock and it just sits there. You need movement (hopefully upward) to get out with a profit. Volatility is not something to be scared of.

If a good company experiences some panic selling due to a little bit of bad news that's greatly overblown, you'll be able to jump in and buy some good stock at rock-bottom prices. As always, you should already know the fundamentals of the company before you buy.

I also want to take a few seconds to mention what's known as the January Effect. Many people sell their stocks that are trading at lower prices than what they initially paid. They sell-off these stocks for what's known as a tax loss, usually in December. This makes the price fall and people panic.

This increased selling drives the price of many good stocks downward. You can purchase some really good stocks at the end of the year for fire sale prices. These same stocks that took a nose dive in December will usually do a reversal and run back up to or exceed the old high.

And finally, I need to mention two other items. First, always play-trade or practice trade before you put any of your money at risk. Simply keep a log sheet of what you buy, when you did it, how many shares you purchased, what you paid, the target price, and the date of the sale and profit if any.

And second, don't buy or sell any stock based on a hot-tip. Never buy a stock that's offered with a high pressure phone call. Always review the company fundamentals. Be suspicious of anything that sounds too good to be true. It usually is. And remember! It's your money. Invest it wisely.

The World Wide Web Investment Research Center

Actually, there's no such place, at least not that I know of. The reason I even bring up the subject is that investing as we know it today will be a constant and ever changing environment due to the new technologies that keep evolving with the Internet and the World Wide Web.

You can find just about anything you need to know with your personal computer. Finding investment information online is very easy and quite enjoyable. The amount of useable information is overwhelming. There is no excuse for anyone not being able to locate good investment material.

The number of people who enjoy and prefer to invest from their home is growing by leaps and bounds. The availability of computer software that lets individual investors do research and analysis with the same skill and expertise of a hot-shot Wall Street broker, will empower the individual.

Using your computer to do research on the stocks you want to buy will become as routine and acceptable as using the telephone. There's a vast amount of information out there that can help you make all of your investment decisions. Get a computer and take advantage of it.

There are many good personal finance sites available online.

I enjoy the "Kiplinger" online personal finance site. I've included a sample of the type of investment information that can be found there. This is a very good site that offers really good information to anyone seriously interested in improving their financial well-being.

The last thing I want to say is this.

You'll never make money in the stock market if you're sitting comfortably on the sidelines. You have to invest some money and take some risks. If you follow the guidelines put forth in this instruction manual, and always do all the required research and analysis, the odds for your success will be greatly improved.

Good Luck and Great Success
Charles Heath

More Terms You Should Know

A – Z

Account executive. The title given by some brokerage firms to their stockbrokers. Other variations on the title include registered representative, financial counselor and financial consultant.

Accrued interest. Interest that is due but hasn't yet been paid. It most often comes into play when you buy bonds in the secondary market. Bonds usually pay interest every six months, but it is earned (accrued) by bondholders every month. If you buy a bond halfway between interest payment dates, you must pay the seller for the three months' interest accrued but not yet received. You get the money back three months later when you receive the interest payment for the entire six-month period.

Adjusted Gross Income (AGI). This is your income from all taxable sources minus certain adjustments. The adjustments—sometimes called "above-the-line deductions" because you can claim them whether or not you itemize—include deductible contributions to regular individual retirement accounts, medical savings accounts and Keogh plans, any penalty paid on early withdrawal of savings, the deductible for 50% of the self-employment tax paid by self-employed taxpayers, alimony payments and job-related moving expenses.

Alpha. A mathematical measure of price volatility that attempts to isolate the price movements of a stock from those of the market. A stock with a high alpha is expected to perform well regardless of what happens to the market as a whole. (See also beta.)

American depositary receipt. Certificates traded on U.S. stock exchanges or over the counter, representing ownership of a specific number of shares of a foreign stock.

Annuity. A series of regular payments, usually from an insurance company, guaranteed to continue for a specific time, usually the annuitant's lifetime, in exchange for a single payment or a series of payments to the company. With a deferred annuity, payments begin sometime in the future. With an immediate annuity, payments begin right away. A fixed annuity pays a fixed income stream for the life of the contract. With a variable annuity, the payments may change according to the relative investment success of the insurance company.

Arbitrage. An attempt to profit from momentary price differences that can develop when a security or commodity is traded on two different exchanges. To take advantage of such differences, an arbitrageur would buy in the market where the price is lower and simultaneously sell in the market where the price is higher.

Asset allocation. The process of dividing investment funds among the different categories of assets, such as cash equivalents, stocks and bonds.

At-the-market. When you buy or sell a security "at-the-market," the broker will execute your trade at the next available price.

Back-end load. A fee charged by mutual funds to investors who sell their shares before owning them for a specified time.

Back office. The support operations of a brokerage firm that don't deal directly with customers. "Back office problems" usually refers to slow paperwork or other bottlenecks in the execution of customers' orders.

Basis. This is the original cost plus out-of-pocket expense that must be reported to the Internal Revenue Service when an investment is sold. It is used in calculating capital gains or losses.

Bearer bond. Also called a coupon bond, it is not registered in anyone's name. Rather, whoever holds the bond (the "bearer") is entitled to collect interest payments merely by cutting off and mailing in the attached coupons at the proper time. Bearer bonds are no longer being issued.

Bearish. A bear thinks the market is going to go down. This makes bearish the opposite of bullish.

Beta. A measure of price volatility that relates the stock or mutual fund to the market as a whole. A stock or fund with a beta higher than 1 is expected to move up or down more than the market. A beta below 1 indicates a stock or fund that usually jumps up and down less than the market.

Bid/asked. Bid is the price a buyer is willing to pay; asked is the price the seller will take. The difference, known as the spread, is the broker's share of the transaction.

Blue chips. There is no set definition of a blue-chip stock, but most would agree it has at least three characteristics: It is issued by a well-known, respected company, has a good record of earnings and dividend payments, and is widely held by investors.

Boiler room. A blanket term used to describe the place of origin of high-pressure telephone sales techniques, usually involving cold calls to unsuspecting customers who would be better off without whatever is being offered to them.

Bond. An interest-bearing security that obligates the issuer to pay a specified amount of interest for a specified time, usually several years, and then repay the bondholder the face amount of the bond. Bonds issued by corporations are backed by corporate assets; in case of default, the bondholders have a legal claim on those assets. Bonds issued by government agencies may or may not be collateralized. Interest from corporate bonds is taxable; interest from municipal bonds, which are issued by state and local governments, is free of federal income taxes and, usually, income taxes of the issuing jurisdiction. Interest from Treasury bonds, issued by the federal government, is free of state and local income taxes but subject to federal taxes.

Bond rating. A judgment about the ability of the bond issuer to fulfill its obligation to pay interest and repay the principal when due. The best-known bond-rating companies are Standard & Poor's and Moody's. Their rating systems, although slightly different, both use a letter-grade system, with triple-A the highest rating and C or D the lowest.

Book value. For investing purposes, this is the net-asset value of a company, determined by subtracting its liabilities from its assets. Dividing the result by the number of shares of common stock issued by the company yields the book value per share, which can be used as a relative gauge of the stock's value.

Brokered CD. A large-denomination certificate of deposit sold by a bank to a brokerage, which slices it up into smaller pieces and sells the pieces to its customers.

Bullish. A bull is someone who thinks the market is going to go up, which makes

Capital gain or loss. The difference between the price at which you buy an investment and the price at which you sell it. Adding the capital gain or loss to the income received from the investment yields the total return.

Capital gain distribution. A mutual fund's distribution to shareholders of the profits derived from the sale of stocks and bonds.

Certificate of deposit. Usually called a CD, a certificate of deposit is a short- to medium-term instrument (one month to five years) that is issued by a bank or savings and loan association to pay interest at a rate higher than that paid by a pass book account. CD rates move up and down with general market interest rates. There is usually a penalty for early withdrawal.

Charting. Another name for technical analysis.

Churning. Excessive buying and selling in a customer's account undertaken to generate commissions for the broker.

Closed-end investment company. Also called a closed-end fund, it is a pooled investment fund that issues a set number of shares and then no more. When the initial offering of shares is sold out, the closed-end fund trades on the secondary market at a price determined by investor supply and demand. For contrast, see the definition of mutual fund.

Cold calling. The practice of brokers making unsolicited calls to people they don't know in an attempt to drum up business.

Commercial paper. Short-term IOUs issued by corporations without collateral. They are bought in large quantities by money-market funds.

Common stock. A share of ownership in a corporation, which entitles its owner to all the risks and rewards that go with it. In case of bankruptcy, common stockholders' claims on company assets are inferior to those of bondholders. For contrast, see preferred stock.

Contingent deferred sales charge. Levied by some mutual funds if a customer sells fund shares within a specified number of years. Instead of charging a traditional front-end load of, say, 5%, a brokerage firm may offer the same fund with a contingent deferred sales load. Customers who sell the fund within the first year pay a 5% load. If they sell in the second year, the charge would be 4%, and so on until the sales-charge period ends.

Contrarian. An investor who thinks and acts in opposition to the conventional wisdom. When the majority of investors are bearish, a contrarian is bullish, and vice versa.

Convertible bond. A bond that is exchangeable for a predetermined number of shares of common stock in the same company. The appeal of a convertible is that it gives you a chance to cash in if the stock price of the company soars. Some preferred stock is also convertible to common stock.

Debenture. A corporate IOU that is not backed by the company's assets and is therefore somewhat riskier than a bond.

Discount broker. A cut-rate firm that executes orders but provides little if anything in the way of research or other investment aids.

Discretionary account. A brokerage account in which the customer has given the broker the authority to buy and sell securities at his or her discretion—that is, without checking with the customer first.

Dividend. A share of company earnings paid out to stockholders. Dividends are declared by the board of directors and paid quarterly. Most are paid as cash, but they are sometimes paid in the form of additional shares of stock.

Dividend reinvestment plan. Also called a DRIP, this is a program under which the company automatically reinvests a shareholder's cash dividends in additional shares of common stock, often with no brokerage charge to the shareholder.

Dollar-cost averaging. A program of investing a set amount on a regular schedule regardless of the price of the shares at the time. In the long run, dollar-cost averaging results in your buying more shares at low prices than you do at high prices.

Dow Theory. A belief that a major trend in the stock market isn't signaled by one index alone but must be confirmed by two—specifically, a new high or low must be recorded by both the Dow Jones industrial average and the Dow Jones transportation average before it can safely be declared that the market is headed in one direction or the other.

Due diligence. The work performed by a broker or other representative in order to investigate and understand an investment thoroughly before recommending it to a customer.

Earnings per share. A company's profits after taxes, bond interest and preferred stock payments have been subtracted, divided by the number of shares of common stock outstanding.

Education IRA. This account, available for the first time in 1998, allows up to \$500 a year to be saved for a child's college education. Contributions are not deductible, but earnings are tax-free if used to pay college bills. Contributions depend on the contributor's AGI. No contributions can be made after the child reaches age 18.

Ex-dividend. The period between the declaration of a dividend by a company or a mutual fund and the actual payment of the dividend. On the ex-dividend date, the price of the stock or fund will fall by the amount of the dividend, so new investors do not get the benefit of it. Companies and funds that have "gone ex-dividend" are marked by an X in the newspaper listings.

Expense ratio. A measure of the costs of running a mutual fund. Expressed as a percentage of the fund's assets, the expense ratio is the best tool for comparing the management costs you'll incur by investing in different funds. The ratio includes management and 12b-1 fees, but not sales loads.

Fannie Mae. The acronym for the Federal National Mortgage Association, which buys mortgages on the secondary market, repackages them and sells off pieces to investors. The effect is to infuse the mortgage markets with fresh money.

Fixed-income investment. A catch-all description for investments in bonds, certificates of deposit and other debt-based instruments that pay a fixed amount of interest.

401(k) plan. An employer-sponsored retirement plan that permits employees to divert part of their pay into the plan and avoid current taxes on that income. Money directed to the plan may be partially matched by the employer, and investment earnings within the plan accumulate tax-free until they are withdrawn. The 401(k) is named for the section of the federal tax code that authorizes it.

403(b) plan. Similar to 401(k) plans, but set up for public employees and employees of nonprofit organizations.

Freddie Mac. The acronym for the Federal Home Loan Mortgage Corporation; it operates similarly to Fannie Mae.

Front-end load. The sales commission charged at the time of purchase of a mutual fund, insurance policy or other product.

Full-service broker. A brokerage firm that maintains a research department and other services designed to supply its individual and institutional customers with investment advice.

Fundamental analysis. Study of the balance sheet, earnings history, management, product lines and other elements of a company in an attempt to discern reasonable expectations for the price of its stock. For contrast, see technical analysis.

Futures contract. An agreement to buy or sell a certain amount of a commodity (such as wheat, soybeans or gold) or a financial instrument (such as Treasury bills or deutsche marks) at a stipulated price in a specified future month, which may be as much as nine months away. As the actual price moves closer to or further away from the contract price, the price of the contract fluctuates up and down, thus creating profits and losses for its holders, who may never actually take or make delivery of the underlying commodity.

Ginnie Mae. The acronym for the Government National Mortgage Association, which buys up mortgages in the secondary market and sells them to investors via securities known as pass-through certificates.

Good-till-canceled order. An order to buy or sell a security at a specified price, which stays in effect until it is executed by the broker because that price was reached, or until it is canceled by the customer.

Index. A statistical composite that tracks the ups and downs in one or more financial markets.

Individual retirement account. A tax-sheltered account ideal for retirement investing because it permits investment earnings to accumulate untaxed until they are withdrawn. The contribution limit is \$2,000 per year, and penalties usually apply for withdrawals before age 59 1/2. Taxpayers whose income is below certain levels can deduct all or part of their IRA contributions, making the IRA a double tax shelter for them.

Initial public offering. A corporation's first public offering of an issue of stock. Also called an IPO.

Institutional investors. Mutual funds, banks, insurance companies, pension plans and others that buy and sell stocks and bonds in large volumes. Institutional investors account for 70% or more of market volume on an average day.

Investment Company Act of 1940. Requires mutual fund companies to register with the Securities and Exchange Commission, which also regulates the industry. The Act sets the standards by which mutual funds and other investment vehicles of investment companies operate, in such areas as promotion, reporting requirements, pricing of securities for sale to the public, and allocation of investments within a fund portfolio.

Junk bond. A high-risk, high-yield bond rated BB or lower by Standard & Poor's or Ba or lower by Moody's. Junk bonds are issued by relatively unknown or financially weak companies, or they have only limited backing from solvent companies.

Keogh plan. A tax-sheltered retirement plan into which self-employed individuals can deposit up to 20% of earnings and deduct the contributions from current income. Investments within the Keogh grow untaxed until they are withdrawn. Withdrawals from the plan are restricted before age 59 1/2.

Leveraging. Investing with borrowed money in the hope of multiplying gains. If you buy \$100,000 worth of stock and its price rises to \$110,000, you've earned 10% on your investment. But if you leveraged the deal by putting up only \$50,000 of your own money and borrowing the rest, the same \$10,000 increase would represent a 20% return on your money, not counting interest on the loan. The flip side of leverage is that it also multiplies losses. If the price of the stock goes down by \$5,000 on the all-cash deal, your loss would be 5% of your \$100,000 investment. On the leveraged deal, your loss would be 10% of the money you put up and you'd still have to pay back the \$50,000 you borrowed.

Leveraged buyout. The use of borrowed money to finance the purchase of a firm. Often, an LBO is financed by raising money through the issuance and sale of junk bonds.

Limited partnership. A business arrangement put together and managed by a general partner (which may be a company or an individual) and financed by the investments of limited partners, so called because their liability is limited to the amount of money they invest in the venture. Limited partnerships can invest in virtually anything, but real estate is the most common choice. They have often been characterized by high fees for the general partners, complicated tax reporting requirements and elusive payouts for the limited partners.

Limit order. An order to buy or sell a security if it reaches a specified price. A stop-loss order is a common variation.

Liquidity. The ability to quickly convert an investment portfolio to cash without suffering a noticeable loss in value. Stocks and bonds of widely traded companies are considered highly liquid. Real estate and limited partnerships are illiquid.

Load. See back-end load and front-end load.

Management fee. Fee paid to mutual fund managers to compensate them for services, pay the rent, brokerage commissions on portfolio transactions, and so forth. Some funds also charge 12b-1 fees, which compensate for the cost of advertising and marketing the

fund directly from the funds asset.

Margin buying. The act of financing the purchase of securities partly with money borrowed from the brokerage firm. Regulations permit buying up to 50% "on margin," meaning an investor can borrow up to half the purchase price of an investment. See Leverage.

Money-market fund. A mutual fund that invests in short-term corporate and government debt and passes the interest payments on to shareholders. A key feature of money-market funds is that their market value doesn't change, making them an ideal place to earn current market interest with a high degree of liquidity.

Mutual fund. A professionally managed portfolio of stocks and bonds or other investments divided up into shares. Minimum purchase is often \$500 or less, and mutual funds stand ready to buy back their shares at any time. The market price of the fund's shares, called the net-asset value, fluctuates daily with the market price of the securities in its portfolio.

Mutual fund manager. These individuals do the specialized work of selecting which securities to buy, keep and sell. The result of their decisions determine the returns the fund pays.

Nasdaq. Pronounced Naz-dak, the acronym for the National Association of Securities Dealers Automated Quotations System, a computerized price-reporting system used by brokers to track over the counter securities as well as some exchange-listed issues.

Net assets. The value of a mutual fund determined by subtracting its total liabilities (such as management and operating costs) from its total assets.

Net asset value (NAV). This is the price at which mutual fund shares are bought and sold by investors. The number represents the value of the fund's holdings, minus management expenses, divided by the number of fund shares outstanding. Most funds calculate the net asset value after each trading day.

Odd lot. A stock trade involving fewer than 100 shares. For contrast, see round lot.

Open-end fund. A mutual fund open to any investor with the money to make a minimum initial purchase. The fund issues new shares to accommodate new purchases and retires shares when investors redeem them by selling them back to the fund. Most funds operate this way.

Opportunity cost. The cost of passing up one investment in favor of another. For instance, if you pull money out of a money-market fund, where it is earning 7% interest, to invest it in a stock that has promise but yields just 4%, your opportunity cost while you're waiting is 3%.

Option. The right to buy or sell a security at a given price within a given time. The right to buy the security is called a "call." Calls are bought by investors who expect the price of the stock to rise. The right to sell a stock is called a "put." Puts are purchased by investors who expect the price of the stock to fall. Investors use puts and calls to bet on the direction of price movements without actually having to buy or sell the stock. One option represents 100 shares and sells for a fraction of the price of the shares themselves. As the time approaches for the option to expire, its price will move up or down depending on the movement of the stock price.

Options can also be used to wring a little income out of stock you own without selling it. By writing (selling) a "covered call," you collect the premium and, assuming the stock price stays under the call price, get to keep the stock. The risk, of course, is that the stock will get called away and you will miss out on the price rise. Return to Call.

Over the counter. The place where stocks and bonds that aren't listed on any exchange (such as the New York or American stock exchange) are bought and sold. Despite the small-stock, small-town image conjured up by its name, in reality the over-the-counter market (OTC) is a high-speed computerized network. **Par.** The face value of a stock or bond. Also called par value.

Penny stock. Generally thought of as a recently issued stock selling for less than \$5 a share and traded over the counter. Penny stocks are usually issued by small, relatively unknown companies and lightly traded, making them more prone to price manipulation than larger, better-established issues. They are, in short, a gamble.

Preferred stock. A class of stock that pays a specified dividend set when it is issued. Preferreds generally pay less income than bonds of the same company and don't have the price appreciation potential of common stock. They appeal mainly to corporations, which get a tax break on their dividend income.

Price-earnings ratio. Usually called the P/E, it is the price of a stock divided by either its latest annual earnings per share (a "trailing" P/E) or its predicted earnings (an "anticipated" P/E). Either way, the P/E is considered an important indicator of investor sentiment about a stock because it indicates how much investors are willing to pay for a dollar of earnings.

Price-sales ratio. The PSR is the stock's price divided by its company's latest annual sales per share. It is favored by some investors as a measure of a stock's relative value. The lower the PSR, according to this school of thought, the better the value.

Program trading. A complex computerized system designed to take advantage of temporary differences between the actual value of the stocks composing a popular index and the value represented by futures contracts on those stocks. To simplify, if the stocks' prices are higher than the futures contracts reflect, computer programs issue orders to sell stocks and buy futures contracts. If the stocks are lower than the futures contracts reflect, program traders buy stocks and sell the futures. The result is virtually risk-free profits for the program traders and more volatility for the market because of the vast numbers of shares needed to make the system work.

Prospectus. The document that describes a securities offering or the operations of a mutual fund, a limited partnership or other investment. The prospectus divulges financial data about the company, background of its officers and other information needed by investors to make an informed decision.

Proxy. The formal authorization by a stockholder that permits someone else (usually company management) to vote in his or her place at shareholder meetings or on matters put to the shareholders for a vote at other times.

Real estate investment trust. A closed-end investment company that buys real estate properties or mortgages and passes virtually all the profits on to its shareholders.

Registered representative. The formal name for a stockbroker, so called because he or she must be registered with the National Association of Securities Dealers as qualified to handle securities trades.

Return on equity. An important measure of investment results that is obtained by dividing the total value of shareholders' equity—that is, the market value of common and preferred stock—into the company's net income after taxes.

Return on investment. Often abbreviated ROI, this is a company's net profit after taxes divided by its total assets, which include common stock, preferred stock and bonds.

Rollover. A tax-free transfer of funds from one tax-deferred retirement savings plan to another. If you take possession of the funds, the money must be deposited in the new account within 60 days. You can also use a rollover to transfer funds from a company plan—when you receive a lump-sum distribution, for example—to an IRA. The tax bill is delayed until you withdraw funds from the IRA.

Roth IRA. New in 1998, this is also known as a "back-loaded" IRA. Contributions are not deductible, but withdrawals can be completely tax-free in retirement. Roth IRAs share several similarities with regular IRAs. But you can withdraw contributions at any time without tax or penalty (but withdrawals of earnings will be subject to penalties until age 59 1/2), and you do not have to take mandatory withdrawals at age 70 1/2. The

unused balance on the account can also be passed tax-free to your heirs. For more information see IRS Publication 553, Highlights of 1997 Tax Changes.

Round lot. A hundred shares of stock, the preferred number for buying and selling and the most economical unit when commissions are calculated.

Sallie Mae. Acronym for the Student Loan Marketing Association, which buys student loans from colleges, universities and other lenders and packages them into units to be sold to investors. Sallie Mae thus infuses the student-loan market with new money in much the same way that

Ginnie Mae infuses the mortgage market with new money.

Secondary market. The general name given to stock exchanges, the over-the-counter market and other marketplaces in which stocks, bonds, mortgages and other investments are sold after they have been issued and sold initially. Original issues are sold in the primary market; subsequent sales take place in the secondary market. For example, the primary market for a new issue of stock is the team of underwriters; the secondary market is one of the stock exchanges or the over-the-counter market. The primary market for a mortgage is the lender, which may then sell it to Fannie Mae or Freddie Mac in the secondary mortgage market.

SEP IRA (Simplified Employee Pensions). Features the same annual contribution limits as the Keogh plans, and is covered by many of the same rules governing regular IRAs. As with Keogh plans, if you have full-time employees, you must make contributions for them as well as yourself. Designed as an easy-to-administer retirement plan, it can also be opened if you have self-employment income from a sideline business or free-lance work. Your contributions can be much higher than regular IRA plans allow. For more information see IRS Publication 590, Individual Retirement Arrangements.

Share classes (class A, class B, etc.). Represent ownership in the same mutual fund, but with different fee structures.

Short selling. A technique used to take advantage of an anticipated decline in the price of a stock or other security by reversing the usual order of buying and selling. In a short sale, the investor (1) borrows stock from the broker and (2) immediately sells it. Then, if the investor guessed right and the price of the stock does indeed decline, he can replace the borrowed shares by (3) buying them at the cheaper price. The profit is the difference between the price at which he sells the shares and the price at which he buys them later on. Of course, if the price of the shares rises, the investor will suffer a loss.

Sinking fund. Financial reserves set aside to be used exclusively to redeem a bond or preferred stock issue and thus reassure investors that the company will be able to meet that obligation.

Specialist. A member of the stock exchange who serves as a market maker for a number of different stock issues. A specialist maintains an inventory of certain stocks and buys and sells shares as necessary to maintain an orderly market for those stocks.

Spread. The difference between the bid and asked prices of a security, which may also be called the broker's markup. In options and futures trading, a spread is the practice of simultaneously buying a contract for the delivery of a commodity in one month and selling a contract for delivery of the same commodity in another month. The aim is to offset possible losses in one contract with possible gains in the other.

Stop-loss order. Instructions to a broker to sell a particular stock if its price ever dips to a specified level.

Street name. The description given to securities held in the name of a brokerage firm but belonging to the firm's customers. Holding stocks in street name facilitates trading because there is no need for the customer to pick up or deliver the certificates.

Technical analysis. An approach to market analysis that attempts to forecast price movements by examining and charting the patterns formed by past movements in prices, trading volume, the ratio of advancing to declining stocks and other statistics. For contrast, see fundamental analysis.

Tender offer. An offer to shareholders to buy their shares of stock in a company. Tender offers are usually a key element of a strategy to take over, or buy out, a company and thus are usually made at a higher-than-market price to encourage shareholders to accept them.

10-K. A detailed financial report that must be filed by a firm each year with the Securities and Exchange Commission. It is much more detailed than a typical annual report published and sent to shareholders.

Total return. A measure of investment performance that starts with price changes, then adds in the results of reinvesting all earnings, such as interest or dividends, generated by the investment during the period being measured.

Triple witching hour. A phrase made popular by program trading, it is the last hour of stock market trading on the third Friday of March, June, September and December. That's when options and futures contracts expire on market indexes used by program traders to hedge their positions in stocks. The simultaneous expirations often set off heavy buying and selling of options, futures and the underlying stocks themselves, thus creating the "triple" witching hour.

12b-1 fees. An extra fee charged by some mutual funds to cover the costs of promotion and marketing. In practice, 12b-1 fees are often used to compensate brokers for selling low-load and no-load funds. The effect of the fee is reflected in the performance figures reported by the funds.

Yield. In general, the return earned by an investment. In discussing bonds, yield can be any of several kinds. "Coupon yield" is the interest rate paid on the face value of the bond, which is usually \$1,000. "Current yield" is the interest rate based on the actual purchase price of the bond, which may be higher or lower than the face amount. "Yield to maturity" is the rate that takes into account the current yield and the difference between the purchase price and the face value, with the difference assumed to be paid in equal installments over the remaining life of the bond.

Zero-coupon bond. A bond that pays all its interest at maturity but none prior to maturity. These "zeros" sell at a deep discount to face value and are especially suitable for long-term investment goals with a definite time horizon, such as college tuition or retirement.

The End .. Thank you Very Much !

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RollerCoaster Stocks ... Member Testimonials

I followed your Roller Coaster Stocks strategies and put in an order for 5500 shares of a \$2.00 stock that fit your required profile. I got out 4 months later at \$3.75 a share. That's about \$9600 bucks. *Jim Case, Maine*

I'm sitting on 10,000 shares of a software development company. I got in at \$0.87 a share. I've watched it move steadily into the \$2.50 range. You were right about (when to sell) being the tough decision to make. I'm gonna do like you said and pull the trigger and take my profits. *Sidney Crews, Florida*

I follow 15 to 20 of your stock picks that have a consistent trading pattern. I purchased 5000 shares each of 5 different companies. I read your book and took your advice on entry-price strategy. Three stocks went up, one sat still, and one stopped-out with a small loss. I made \$7200.00. *Rita Rich, S.C.*

I used to subscribe to another well known and expensive small-cap stock newsletter. Over a period of one year 30% of their picks went belly-up within days of being recommended. I must say that your strategy of analyzing companies with a very long history of repetitive swings combined with solid and verifiable fundamentals is very reassuring. *Fred Reed, Oklahoma*

I rode 10,000 shares of a bankruptcy stock (up) 4 bucks. *Bob Jones, GA*

My wife and I brought two small stocks between November and the last day of December. They were beat down due to tax selling. It happens (like you said) almost every year. We loaded up with 20,000 shares. We got out of the first stock in March with a \$1.03 a share profit. We got out of the second stock 1 week later with a \$1.87 a share profit. We paid \$1.37 for the first stock and \$1.25 for the second stock. Our total gross profit on the entire 20,000 shares was \$29,000. *Andy & Jill Clark, Florida*

Your trading manual has put me on the right track. *Art Smith, New Jersey*

We've been using your methods to trade stocks for the past year. We made some fairly classic mistakes in the past. Your style of trading is much more enjoyable and less stressful. This really means a lot. Thanks. *Tom Kite, LA*

I've made six trades over the last two months. All of my winners were found on the Roller Coaster site. In the past I made the classic mistake of following picks made by a well known "pump & dump" web-site. I've read your book and joined your Roller Coaster Stocks site. I've consistently made myself more money with less worry and hassle. Thanks. *Terry Wilson, Utah*

The 3 Most Frequently Asked Questions

Out of the thousands of inquiries I've received, there's three questions that consistently get asked over and over again. I'll try to answer each question as simply and effectively as possible. Thank You *Charles Heath*.

Do I need any special skills or experience to get started trading stocks ?

The short and simple answer is No !

However I do advise that you seriously study the stock market whenever you get a chance. A good dose of common sense and some honest effort will go a long way toward your being a successful trader or investor. The more time you put into studying the market the more successful you'll be.

You will find that trading and investing in low-price common stocks is a very interesting and enjoyable endeavor. My experience has been that the more you know the more you want to know. This is one of the few things left in life where an ordinary person can financially make up for long lost time.

The emergence of the Internet and World Wide Web has made it possible for everyone to have access to information that was not readily available in the past. This has leveled the playing field dramatically. You can now have access to all the "strategic Information" you need to make winning trades.

How much money does it take to get started ?

You can get started buying, selling, and trading small stocks with just about any amount of money. The first thing you do is open up a trading account at one of the deep-discount brokers. Some require no initial deposit at all. Others require \$500 to \$1000, and others want \$2000 to \$5000 or more.

You can buy 1000 shares of a 50 cent stock for just \$500.00, plus a couple of bucks for the brokerage fee. The cost of the stock and the total number of shares is what determines your start-up cost. Buying smaller stocks allows you to control more shares which will offer you much greater profit potential.

Can I Make A Million Bucks Before Lunch (or something similar) ?

Nope ... You won't find any "get-rich-quick" hype here !

Having said that ... let me also say that you really can make yourself some very impressive gains within a relatively short period of time. There's really no limit on how much money you can make on a stock. Some people make 2 to 3 trades a year and make \$10 – \$15,000 in profits. Others might have a 20,000 share block and ride it up \$3.00 to \$4.00 a share ... in no time at all.

Join RollerCoaster Stocks. Get Your Share Of The Profits Today!