STOCKNEWS TRENDS

Discovering Small Stocks Before They Make Their Big Move...

(Moves like 15,900%, 16,400%, 21,000%, 69,000%, and even 133,966%)

An Inside Look at Finding Little-known Companies Before They Go Mainstream and Become Household Names.

www. stockmarkettrendstoday.com

See Disclaimer

WARNING

Always Read The Fine Print.

Before you begin your journey into the exciting world of “small stocks,” there are a few housekeeping rules that we need to discuss first. For instance, this guide is for entertainment purposes only. The author, producer, and publishers of this guide are not licensed financial advisors. Always consult your trusted advisor(s) before making any financial or legal decisions. Never invest, trade, or speculate with money that you cannot afford to lose. You should always be prepared to lose 100% of your investment. In other words, never take my advice, and always be prepared to lose all of your money. I will never tell you to buy or sell a specific stock or any other financial instrument. Last, but not least, always read the fine print.

Why You Should Read This Guide.

Time is one of the two most valuable commodities in the world. When you choose to spend your “time” reading or learning about a new topic or subject, you should always make sure that it’s worth your time. Ideally, you’ll feel your time was well spent reading this guide and learning how to find small stocks before they make their big move.

"The most valuable commodity I know of is information", as Gordon Gekko once famously said in the 1987 movie, Wall Street.

Fortunately for you, we won't be discussing Oliver Stone's Wall Street: Money Never Sleeps film from 2010 in this guide.

However, to Mr. Gekko's point, "information" is the other most valuable commodity.

When you combine your time + the information contained in this guide, you'll be ready for the exciting and sometimes insanely profitable world of "small stocks".

The best time for you to read this guide was yesterday... The second best time is today... So let's get started...

INTRODUCTION

Whenever you hear the mainstream media or the traditional investment industry talk about small stocks, micro-cap stocks, or penny stocks, you'll mostly hear negative comments like:

"They are risky."
"They are volatile."
"They are unregulated."
"They are illiquid."

Consequently, the vast majority of investors do not get involved in small stocks. They are scared because they have been trained by the environment to be scared.

Most professional investors and money managers are not even allowed to touch them. They have certain restrictions as to the size of companies they can invest in.

INTRODUCTION

But if you asked people why they feel investing in these small stocks is risky, you'll probably get some pretty vague answers. This should tell you that most people don't really know why they are risky, but they say it anyway because this is what they have been taught for years.

After hearing the same thing over and over again, eventually you start to believe it.

Well, this is what the media and investment industry propagated over the years.

And if you've been listening to them, you've probably been missing out one of the most exciting and sometimes super profitable segments of the stock market by not paying attention to small stocks.

- The aim of this guide is to help you identify these hidden gems before they make their big moves.
- Small stocks can trade on national exchanges and OTC exchanges which we will discuss briefly.

CHAPTER 1

The Basics of Market Capitalization

For the purposes of this guide, we are going to define the term “small stocks” as any company that has a market capitalization of under $2 billion. If you are not 100% sure what “market capitalization” means – don’t worry, we are going to cover that right now.

What Is Market Capitalization?

Image Source (1)

Investopedia.com defines “Market Capitalization” like this: **The total dollar market value of a company’s outstanding shares of stock.**

The investment community uses this figure to determine a company’s size instead of sales or total asset figures. In an acquisition, the market cap is used to determine whether a takeover candidate represents a good value or not to the acquirer.[1]

Companies are typically divided according to market capitalization shown in the graphic below:

Category	Market Cap
Mega-Cap	> $200B
Large-Cap	$10B - $200B
Mid-Cap	$2B - $10B
Small-Cap	$250M - $2B
Micro-Cap	<$250M
Nano-Cap	<$50M

Image Source (2)

Market cap is often used to determine a company's size, and then to evaluate the company's financial performance to other companies of various sizes.

When it comes to investing, companies with a larger market capitalization are often safer investments as they represent more established companies with a generally longer history in business. [1]

Understanding Market Capitalization [1]

Understanding what a company is worth is an important task and often difficult to quickly and accurately ascertain. Market capitalization is a quick and easy method for estimating a company's value by extrapolating what the market thinks its publicly traded value is worth. In such a case, simply multiply the share price by the number of available shares.

After a company goes public and starts trading on an exchange, its price is determined by supply and demand for its shares in the market. If there is a high demand for its shares due to favorable factors, the price would increase. If the company's future growth potential doesn't look good, sellers of the stock could drive down its price. The market cap then becomes a real-time estimate of the company's value.

Although the focus of this report will be on “small stocks,” it’s important that you understand the differences between mega-cap, large-cap, mid-cap, small-cap, micro-cap, and nano-cap stocks.

How to Calculate Market Cap [1]

The formula for market capitalization is:

Market Cap = Current Share Price * Total Number of Shares Outstanding

For example, a company with 20 million shares selling at $100 a share would have a market cap of $2 billion.

A second company with a share price of $1,000, but only 10,000 shares outstanding,

on the other hand, would only have a market cap of $10 million.

A company's market cap is first established via an initial public offering (IPO). Before an IPO, the company that wishes to go public enlists an investment bank to employ valuation techniques to derive a company's value and to determine how many shares will be offered to the public and at what price. (1)

For example, a company whose IPO value is set at $100 million by its investment bank may decide to issue 10 million shares at $10 per share or alternatively, they may want to issue 20 million at $5 a share. In either instance, the initial market cap would be $100 million.

Misconceptions About Market Caps [1]

Even though it is used often to describe a company, the market cap does not measure the equity value of a company as only a thorough analysis of a company's fundamentals can do that. It is inadequate to solely value a company based on the market cap because it may not reflect how much the business is actually worth. Shares are often over- or undervalued by the market, meaning the market price determines only how much the market is willing to pay for its shares.

Although it measures the cost of buying all of a company's shares, the market cap does not determine the amount the company would cost to acquire in a merger transaction. A better method of calculating the price of acquiring a business outright is the enterprise value.

Key Takeaways:

1. Market capitalization refers to how much a company is worth as determined by the stock market. It is defined as the total market value of all outstanding shares.

2. To calculate a company's market cap, multiply the number of outstanding shares by the current market value of one share.

Misconceptions About Market Caps [1]

Market cap is generally used to divide stocks into six categories based on size:

Mega-Cap
$200 billion or more

Small-Cap
$250 million to $2 billion

Large-Cap
$10 billion to $200 billion

Micro-Cap
$50 million to $250 million

Mid-Cap
$2 billion to $10 billion

Nano-Cap
below $50 million

A company's size in terms of market capitalization doesn't tell its whole story, but market cap information is useful for a variety of key decisions.

Market capitalization data is helpful for investors when they are evaluating the growth and risk prospects of stocks to include in their portfolios. Grouping companies of similar sizes together allows you to better compare their stocks and performance.

What Does a High Market Cap Tell You? [1]

A high market cap signifies that the company has a larger presence in the market. Larger companies may have less growth potential compared to start-up firms, but larger companies may be able to secure financing for cheaper, have a more consistent stream of revenue, and capitalize on brand recognition. Companies with higher market caps are generally less risky than companies with lower market caps.

However, it's the smaller market cap stocks that offer the biggest growth potential.

What Is a Mega-Cap Stock? [4]

Mega-cap is a designation for the largest companies in the investment universe as measured by market capitalization. While the exact thresholds change with market conditions, mega cap generally refers to companies with a market capitalization above $200 billion.

Many of the companies boast strong brand recognition and operate in major markets around the world, such as Apple (AAPL), Amazon (AMZN), and Meta (META), formerly Facebook.

Key Points of Mega-Caps (4)

Mega-cap companies are those with market values well above the rest of the market, with valuations over $200 billion.

Due to the market value weighting of indices, mega-cap stocks have been in a unique position to sometimes lift or drop an entire index based on their stock performance.

Mega-cap stocks in the past have predominantly been in the energy or transportation sectors such as those in oil or railroads. Today, many of the largest companies in the world are tech companies such as Apple, Amazon, Google, Meta, and Tesla.

Mega-Cap stocks have limitations like any other stock. (4)

What Is a Large-Cap Stock? (6)

Large-cap refers to a company with a market capitalization value of more than $10 billion. Large-cap is a shortened version of the term "large market capitalization."

Key Points of Large-Caps (6)

Large-cap (sometimes called "big cap") refers to a company with a market capitalization value of more than $10 billion.

Large-cap is a shortened version of the term "large market capitalization."

Large-cap stocks represent a significant portion (approximately 98.5%) of the U.S. equity market and are often used as core portfolio holdings.

What Is a Mid-Cap Stock? [7]

Mid-cap (or mid-capitalization) is the term that is used to designate companies with a market cap (capitalization)—or market value—between $2 and $10 billion. As the name implies, a mid-cap company falls in the middle between large-cap (or big-cap) and small-cap companies.

Large-cap stocks are generally considered to be safer investments than their mid- and small-cap stock counterparts, because they are larger, more established companies with a proven track record. However, small-cap stocks have historically outperformed their larger cap counterparts. [5]

Mid-cap is the term given to companies with a market cap (capitalization)— or market value— between $2 billion and $10 billion.

For companies, some of the appealing features of Mid-Cap companies are that they are expected to grow and increase profits, market share, and productivity.

They are in the middle of their growth curve.

Mid-Cap stocks are useful in portfolio diversification because they provide a balance of growth and stability.

For investors, a mid-cap company may be appealing because they are expected to grow and increase in profits, market share, and productivity; they are in the middle of their growth curve. (7) However, small-cap stocks have historically outperformed their large- and mid-cap counterparts. [5]

What Is a Small-Cap Stock? (8)

A small-cap stock is a stock from a public company whose total market value, or market capitalization, is about $300 million to $2 billion.

Small-cap stock investors are generally looking for up-and-coming young companies that are growing fast. That is, they're looking for the large-cap stocks of the future.

Key Points of Small-Caps (8)

A Small-Cap stock is generally that of a company with a market capitalization of between $300 million and $2 billion.

Small-Cap stock investors seek to beat institutional investors by focusing on growth opportunities.

Small-Cap stocks historically have outperformed Large-Cap stocks.

One misconception about small-cap stocks is that they are startups or brand new companies. In reality, many small-cap stocks are of companies that are well-established businesses with strong track records and great financials.

And because they are smaller, small-cap stock share prices have a greater chance of growth.

What Is a Micro-Cap Stock? [9]

A micro-cap is a publicly-traded company in the U.S. that has a market capitalization between approximately $50 million and $300 million. Micro-cap companies have greater market capitalization than nano caps, and less than small-, mid-, large- and mega-cap corporations. It should be noted that companies with larger market capitalization do not automatically have stock prices that are higher than those companies with smaller market capitalizations.

Key Points of Micro-Caps [9]

A micro-cap is a stock with a market cap of between $50 million and $300 million.

Micro-Cap stocks tend to have greater volatility.

Micro-Caps are generally far off of the radar of Wall Street. [10]

Over long periods of time, Micro-Cap stocks outperform other equities. [10]

Micro-Cap stocks improve a portfolio's risk/return characteristics. [10]

Adding a deep value approach to a Micro-Cap strategy increases outperformance. [10]

Perceived negatives such as illiquidity actually benefit long-term investors. [10]

What Is a Nano-Cap Stock? [11]

Nano-Cap refers to small, publicly traded companies with a market capitalization below $50 million and is as small as you can get in terms of market capitalization.

Key Points of Nano-Caps

Nano-Caps are publicly traded companies with small market capitalizations of $50 million or less.[11]

Nano-Cap companies are considered the smallest stocks by market cap. [11]

Nano-Cap companies are often referred to as penny stocks.[11]

A penny stock refers to a small company's stock that typically trades for less than $5 per share. [12]

Although some penny stocks trade on large exchanges such as the NYSE & the NASDAQ, most penny stocks trade over-the-counter through the OTC Bulletin Board (OTCBB) [12]

There can be sizable gains in trading penny stocks.[12]

CHAPTER 2

Why Focus on “Small Stocks”

(Small-Cap, Micro-Cap, and Nano-Cap Stocks) [3]

Small stocks have the potential for high rates of growth, making them appealing investments. Although these stocks may experience more volatility, they offer considerably more upside potential than their larger-cap counterparts.

There are more small-cap stocks than mega-cap, large-cap and mid-cap stocks combined.

That’s thanks to the fairly broad range of market capitalizations included in the small-cap stock designation. For the purposes of this report, any company with a market cap under $2 billion will be considered a small-cap stock.

Because of their size, small-cap stocks have different risks and rewards for investors than their larger counterparts.

Small-caps include the next hot company everyone will be talking about along with companies on the brink of bankruptcy, and ones that are prime targets for an acquisition.

As a result, small-cap stocks can experience larger-than-average volatility, which is just another way to refer to rapid gains and losses. Over long periods of time, investors may be rewarded if they stomach the ups and downs along the way.

However, in the short term, some small-cap stocks may experience wild swings and can be illiquid, meaning they don’t trade as frequently and can be difficult to sell.

In the past 20 years, the S&P SmallCap 600 index, a leading benchmark for small-cap stocks, has outperformed its related indexes for large- and mid-caps on an average annualized basis, according to figures from S&P Dow Jones Indices.

During that period, the S&P's benchmark small-cap index returned an average of 8.3% annually, compared to 8% and 6.3% from its mid- and large-cap counterparts, respectively.

The following indexes are often used as benchmarks for the U.S. small-cap universe. Both include companies in a variety of industries: [3]

01. Russell 2000 Index.

The Russell 2000 Index includes approximately 2,000 of the smallest U.S. stocks. Companies had a median market cap of $940 million as of November 2022.

02. S&P SmallCap 600 Index.

The S&P SmallCap 600 Index tracks the performance of 600 Small-Cap companies, with a median market cap of approximately $1.4 billion as of November 2022.

Small-Cap vs. Mid-Cap Stocks [3]

***Reminder:** Mid-Cap stocks are those whose market caps range from $2 to $10 billion.*

Beyond size, there are other important differences between small- and Mid-Cap stocks:

01. **Stage in the business lifecycle.** Companies in the mid-cap space occupy a sweet spot. They may be more established in their respective industry with a more robust lineup of products or services than small-caps, but they aren't yet the big household names everyone knows.

02. **Geography.** Both small- and mid-cap companies derive a majority of sales within their domestic economy. However, companies in the mid-cap space are more likely to begin operating outside their home country.

03 **Volatility.** Both mid- and small-cap companies have big growth potential, depending on their industry. Mid-caps are more likely than small-caps to be involved in a merger or acquisition, which can propel their growth prospects.

04. **Risk.** As a group, mid-caps are considered less risky than small-caps because of their more established business models.

05. **Growth.** Because of their lower relative risk, mid-cap stocks also are less volatile as a group than small-caps.

The two primary benchmark indexes for Mid-Cap stocks are: [3]

- **S&P MidCap 400 Index.** This benchmark tracks the performance of 400 mid-sized U.S. companies with a median market cap of nearly $5.2 billion as of November 2022.

- **Russell MidCap Index.** This index tracks a larger universe of approximately 800 mid-cap companies with a median market cap around $8.8 billion as of November 2022.

Small-Cap vs. Large-Cap Stocks [3]

Reminder: *Large-cap stocks are those whose market caps are $10 billion or greater.*

There are even bigger differences between small- and large-cap stocks. Not only are small-caps a fraction of the size of large-caps, but the business and investing prospects are also quite different.

01. **Stage in the business lifecycle.** Large-cap companies are well established in their industry, with a broad and diversified business that includes a variety of products and services. These companies may even dabble in different industries..

02. **Geography.** Large-cap companies operate globally, and only 62% of their sales come from the U.S. compared with 79% for small-cap companies, according to figures from 2019 compiled by S&P Dow Jones Indices. If there's a slowdown in the U.S., small-cap stocks are more likely to take a hit.

03. **Growth.** By the time companies become large-caps, the biggest gains in their history may already be over. By this point, however, they are more likely to begin acquiring other companies to expand their businesses, including those in the small-cap space.

04. **Risk.** Because their businesses are more established, with a diverse lineup of businesses operating in multiple countries, investing in large-cap stocks is less risky than small-caps that don't share those same attributes.

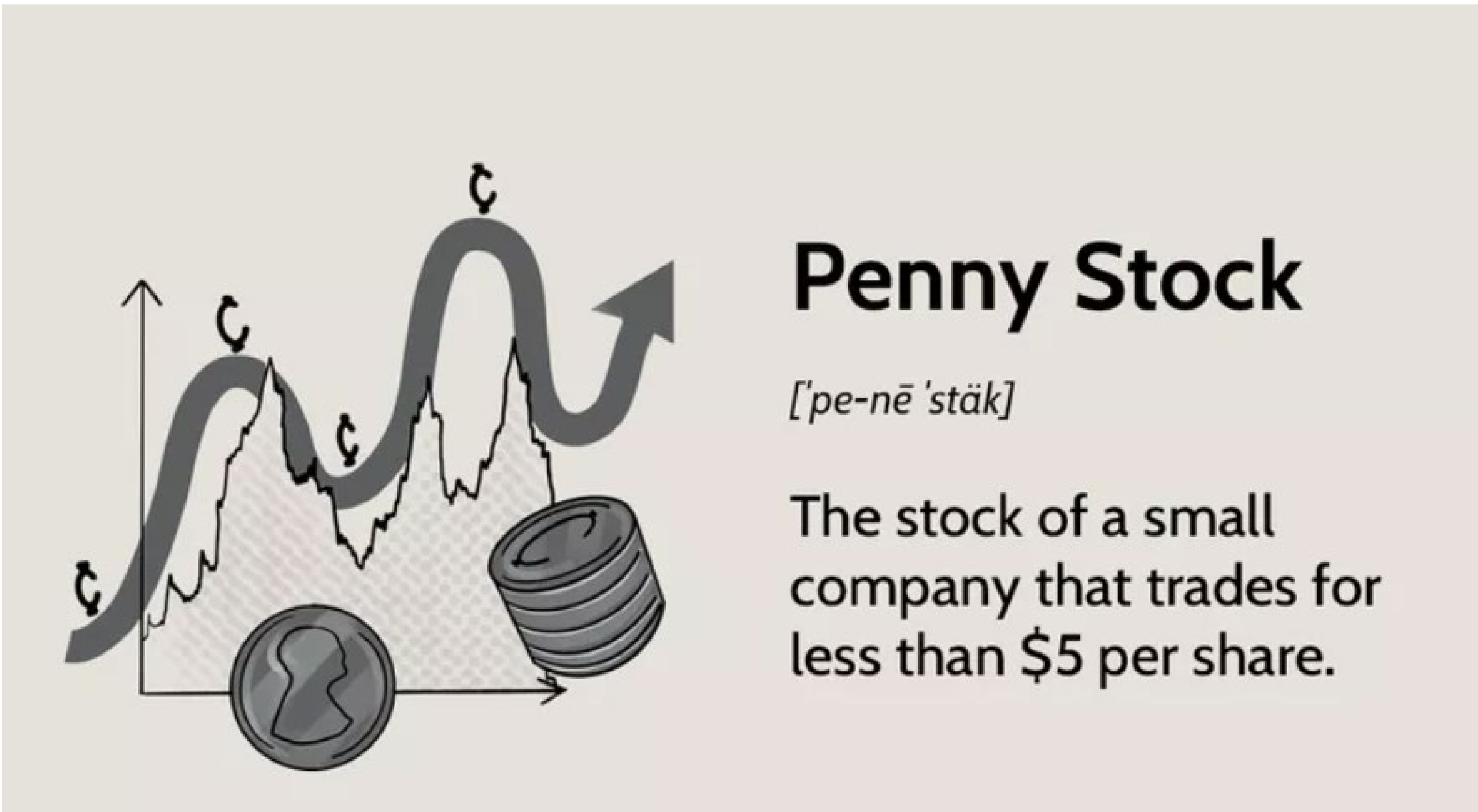
05. **Volatility.** While any individual stock price can jump around a lot, large-cap stocks are less likely than small-caps to experience wild swings.)

Even though small-cap stocks can be riskier, investors may still choose to invest in them to benefit from the higher potential gains. What's more, these companies aren't so impacted by slowdowns in other regions of the world because a majority of their sales come from the U.S., so investing in small-cap stocks is a way to benefit from a strong U.S. economy.

The amount of money that you allocate to small-caps versus mid- or large-caps ultimately comes down to your risk tolerance and investment goals.

CHAPTER 3

How to Rate Penny Stocks (12)



According to Investopedia.com, a penny stock typically refers to the stock of a small company that trades for less than $5 per share. Though some penny stocks trade on large exchanges such as the New York Stock Exchange (NYSE) or the NASDAQ, most trade via over-the-counter (OTC) transactions through the electronic OTC Bulletin Board (OTCBB) or through the privately-owned OTC Markets Group.

There is no trading floor for OTC transactions. Quotations are also all done electronically.

In the past, penny stocks were considered any stocks that traded for less than one dollar per share. The U.S. Securities and Exchange Commission (SEC) has modified the definition to include all shares trading below five dollars.

The SEC is an independent federal government agency responsible for protecting investors by maintaining the proper and orderly functioning of the securities markets.

Penny stocks are usually associated with small companies with a lack of liquidity, meaning that there are few ready buyers in the marketplace. As a result, investors may find it difficult to sell stock shares since there may not be enough buyers.

Because of the low liquidity, investors might have difficulty finding a price that accurately reflects the market.

Due to their lack of liquidity, wide bid-ask spreads or price quotes, and small company sizes, penny stocks are generally considered highly speculative. In other words, investors could lose a sizable amount or all of their investment.

Typically, penny stocks have a higher level of volatility, resulting in a higher potential for reward and, thus, a higher level of inherent risk. Investors may lose their entire investment on a penny stock, or more than their investment if they buy on margin, which means the investor borrowed funds from a bank or broker to purchase the shares.

Investors should consider the heightened risks associated with penny stocks. For example, an investor should have a stop-loss order predetermined before entering a trade and know what price level to exit if the market moves against them. Stop-loss orders set a price limit that, once reached, will trigger an automatic sale of the securities.

Although penny stocks can have explosive gains, it is essential to have realistic expectations and understand that penny stocks are high-risk investments with low trading volumes.

Some companies, such as Amazon (AMZN) originated as penny stocks but later grew into sizable blue-chip companies.

OTC Penny Stocks vs NYSE/ NASDAQ Penny Stocks (13)

If you've made it this far into the report, there is a good chance you've already seen the movie Wolf of Wall Street with Jordan Belfort. In that movie, they were trading penny stocks that are called Pink Sheets. (13)

These penny stocks trade over-the-counter (OTC), which means they are not listed on the NYSE or NASDAQ exchanges and are companies that don't have to adhere to strict financial requirements required by major exchanges.

To be listed on the largest national exchanges, you must be fully transparent about your financials, and your stock must remain above $1.00 per share.

Companies that are not willing or able to provide complete financial documentation, who cannot keep their stock above $1.00 per share, or who are in bankruptcy filings, will trade on the OTC markets.

Some people do not trade penny stocks trading over-the-counter mainly because of the lack of liquidity along with the lack of regulations in the OTC Market. They are far more susceptible to manipulation which makes them dangerous to trade.

(We will be covering the OTC Markets in just a few minutes.)

Listed penny stocks, or stocks trading on an exchange like the NYSE or NASDAQ is where you should focus the majority of your attention. They have the ability to make huge moves intraday and are cheap enough to put on large positions. There are several "unofficial" ways to rate penny stocks which will be discussed next, so keep reading.

The 4 Tiers of Penny Stocks (Unofficially)[13]

01

Tier 1 Penny Stocks:

These are the penny stocks that should get the most of your focus. They are listed on a major exchange like the NYSE or NASDAQ and are usually priced below $5.00 per share, but can be a little higher priced than that. Tier 1 penny stocks are still speculative, but less open to manipulation because they are required by the exchanges to provide financial information and are held to a higher standard than OTC penny stocks.

02

Tier 2 Penny Stocks:

Traditional penny stocks, by popular opinion, are stocks priced between 1 cent and 99 cents. They aren't below 1 cent (if you didn't already know, stocks can trade at fractions of a penny). It's not uncommon to see a stock priced between 1 cent and 99 cents that is still listed on the NYSE or NASDAQ. These companies will typically get a letter (which is made public), that they need to meet the listing requirements to have their stock above $1.00 within a certain amount of time. If they do it, the stock remains listed, if they can't it will be delisted and moved to the OTC market exchange.

03

Tier 3 Penny Stocks:

Sub-Penny Stocks are stocks that are below 1 penny per share. So that starts at .0099. These will not be NYSE or NASDAQ stocks, so for that reason, most people do not trade them on a regular basis. However, stocks priced this low have tremendous upside potential if something triggers a sudden interest in the company.

04

Tier 4 Penny Stocks:

Trip Zero Stocks (Priced .0001 – .0009) are priced with 3 zeros. These are stocks priced between .0001 and .0009 per share. In most cases, you should avoid spending any time researching companies that fall under Tier 4.

CHAPTER 4

Understanding OTC Markets (14)

Most people, traders, and investors are familiar with major exchanges like the NASDAQ and the New York Stock Exchange (NYSE). The OTC Markets are a completely different animal.

The OTC markets are popular among traders looking for penny stocks and micro-cap stocks that don't trade on the major exchanges. However, these markets lack some of the safeguards of stock exchanges and OTC stocks often don't have the same level of regulatory scrutiny as exchange-traded stocks.

So, it's important to understand how OTC Markets work, what the different OTC Market tiers are, and what the classifications that are given to OTC stocks mean.

What are the OTC Markets?

OTC, or over-the-counter, markets are decentralized stock markets where individuals buy and sell stocks directly with each other. Typically, the term OTC Markets refers to the specific decentralized markets run by The OTC Markets Group, a for-profit financial markets provider.

OTC Markets are typically home to penny stocks and micro-cap stocks that don't meet the stringent listing requirements of major U.S. exchanges. Some well-known foreign companies, like Nestle, Volkswagen, and Samsung, also trade on OTC markets in order to avoid costly US exchange regulations.

OTC Markets vs. Other Exchanges

OOTC markets operate very differently from other exchanges. First, they are fully electronic and do not have physical locations. Buy and sell orders are matched automatically or by dealers, and the prices at which transactions occur are not always visible to everyone in the market.

As a result of this system, liquidity is frequently low in OTC markets. Prices can swing wildly throughout the day, particularly compared to major exchanges. Particularly for penny stocks, it can be difficult to enter or exit positions quickly.

Another important difference between OTC markets and other exchanges is in how they are regulated. OTC markets are subject to much less oversight by the SEC than major exchanges, and there are fewer rules around what information companies must report. It's critical that you do your own research when buying stocks on OTC markets, especially since some smaller companies have been known to exaggerate or misstate financial information for investors.

OTC Market Tiers [14]

The OTC Markets Group platform is divided into three distinct marketplaces: OTCQX, OTCQB, and OTC Pink.

OTCQX

The OTCQX market has the strictest regulatory and reporting requirements of the three OTC market tiers. In order to list on this marketplace, companies must report to the SEC, disclose material news to investors, and be sponsored by a third-party such as a bank or investment firm.

In addition, companies on the OTCQX market must meet revenue, stock price, and market cap minimums.

Given these stringent requirements, stocks on the OTCQX markets are considered more trustworthy and typically have more liquidity than those on the lower market tiers.

OTCQB [14]

The OTCQB market is a step down from the OTCQX market in terms of what is required of companies in order to list shares. Companies must be audited annually, report to the SEC or a banking regulator, and must have a minimum share price of $0.01. These companies must also have a float of at least 10% of outstanding shares.

This marketplace includes many companies that are growing and need access to public markets for capital, but don't yet have the capacity to meet the reporting or revenue requirements of the OTCQX marketplace.

OTC Pink [14]

The OTC Pink market, also known as the "Pink Sheets," is the least regulated OTC market. Companies on the OTC Pink market do not have to be audited, although they must report to the SEC. They must also file a form with FINRA in order to list.

Other OTC Market Classifications[14]

Companies on the OTC Pink marketplace are often penny stocks, shell companies, and companies that are in financial distress. Be cautious of scams when trading stocks in this market.

Stocks on the three OTC market tiers are classified in several additional ways that indicate their current status or to provide warnings to potential investors. Typically, these classifications are visibly listed on The OTC Markets Group page for a particular stock.

Delinquent SEC Reporting (14)

A delinquent SEC reporting classification indicates that a company is not up to date with its SEC reporting requirements under the Exchange Act. Companies that are delinquent may be subject to removal from the OTC markets by the SEC until reporting requirements are fulfilled. In other words, a company that falls behind on its reporting may have trading of its shares suspended.

Shell Risk(14)

The OTC Markets Group may classify a company as a Shell Risk if the company has financial or other characteristics of a shell company. This classification is assigned subjectively based on a company's financial disclosures and is not based on companies' self-reported shell status. Shell companies can be problematic for investors because they hide the underlying company's financial activity and changes in operations.

Dark or Defunct (14)

Companies labeled as Dark or Defunct are those that have failed to provide any public financial updates, either to the SEC or to The OTC Markets Group.

Caveat Emptor (14)

The Caveat Emptor classification is a public warning to investors issued by The OTC Markets Group. This designation indicates that the company has been associated with fraudulent or potentially illegal activity or has a pending suspension of trading by regulators.

Conclusion (14)

The OTC markets are where the shares of thousands of startups, micro-cap companies, and foreign companies trade. Understanding the three different OTC market tiers can help you evaluate the risk of a particular stock and gauge the stock's regulatory oversight and liquidity. When trading stocks on the OTC market, be sure to look for classifications by The OTC Markets Group that may provide additional information about a company's regulatory status.

For more information on the OTC Markets Structure click here.

For stocks listed on OTC Markets with recent news click here.

CHAPTER 5

Small Stocks, Huge Gains

(Moves like 15,900%, 16,400%, 21,000%, 69,000%, and even 133,966%)

The world of investing is full of tricks and opportunities, and the massive success of a handful of firms on the stock market has made their founders and investors billionaires. [17]

The market is responsible for producing some of the richest individuals in history, such as Bill Gates, the founder of Microsoft

Corporation (NASDAQ:MSFT) and the electric vehicle billionaire, Mr. Elon Musk. [17]

On April 4, 1975, at a time when most Americans used typewriters, childhood friends Bill Gates and Paul Allen founded Microsoft, the company that makes software for PCs. Originally based in Albuquerque, New Mexico, Microsoft relocated to Washington State in 1979 and eventually grew into a major multinational technology corporation. In 1987, the year after Microsoft went public, 31-year-old Gates became the world's youngest billionaire. [15]

Microsoft Corporation (NASDAQ:MSFT) initially sold for $21 per share. At that price, $10,000 bought 476 shares. Its nine splits between 1987 and 2003 would drop that adjusted IPO price to just over $0.07 per share, and turn those original 476 shares into 137,088 (assuming the sale of fractional shares after the three-for-two splits). An initial $10,000 in (MSFT) stake would have eventually grown in value to over $35.2 million.[16]

(Turning $10,000 into over $35,000,000)

The following list of companies could be described as having their own rags-to-riches story...

NVIDIA Corporation (NASDAQ:NVDA)

Share Price Gain To Date: 15,900% (as of October 2022)[18]

NVIDIA Corporation (NASDAQ:NVDA) is the world's largest graphics processing unit designer and seller. Its products lead the market and are used in a variety of applications such as gaming, machine learning, and enterprise computing.[18]

NVIDIA Corporation (NASDAQ:NVDA) shares have appreciated by a staggering 15,900% since they started trading on the stock market in January 1999. The IPO share price was $12, and after it is adjusted for stock splits, it now stands at $0.82 per share – among the lowest of the lows for a penny stock.[18]

Tesla, Inc. (NASDAQ:TSLA)

Share Price Gain To Date: 16,400%(as of October 2022)[19]

Tesla, Inc. (NASDAQ:TSLA) is one of the largest electric vehicle companies in the world, and is widely credited to have pioneered new energy vehicles after having overcome significant manufacturing and production constraints. The company is headquartered in Austin, Texas, the United States.

Tesla, Inc. (NASDAQ:TSLA) is aggressively targeting the Chinese market, where it faces tough competition from local firms at the top of their game. The firm announced that it was cutting the prices of its vehicles in China in October 2022.

While **Tesla, Inc. (NASDAQ:TSLA)'s** shares started to sell at $10 in 2015, since then a significant number of stock splits have brought down the IPO share price to just $1.28. To date, the shares have grown by 16,400% on the stock market.

QUALCOMM Incorporated (NASDAQ:QCOM)

Share Price Gain To Date: 21,000% (as of October 2022)[17]

QUALCOMM Incorporated (NASDAQ:QCOM) is one of the largest semiconductor companies in the world. The firm designs and sells semiconductors for smartphones, virtual reality headsets, Internet of Things (IoT) gadgets, and cars. It is headquartered in San Diego, California, the United States. [17] QUALCOMM Incorporated (NASDAQ:QCOM)'s shares are up by a massive 21,000% since they started trading in 1991. [17]

Monster Beverage Corporation (NASDAQ:MNST)

Share Price Gain To Date: 69,000% (as of October 2022)[17]

Monster Beverage Corporation (NASDAQ:MNST) is an energy drink company that is headquartered in Corona, California, the United States. In addition to energy drinks, the firm also sells iced teas, lemonades, cocktails, and coffee drinks. [17]

Ever since **Monster Beverage Corporation (NASDAQ:MNST)** listed its shares for 13 cents in 1985, they have been on an upward trajectory. Since going public, the company's share price has appreciated by a staggering 69,000%.[17]

The Company's common stock began trading in the over-the-counter market on November 8, 1990 and was subsequently quoted on the Nasdaq Capital Market under the symbol "HANS"[21]

On July 5, 2007, the Company's common stock began trading on the Nasdaq Global Select Market under the same symbol, "HANS". [21] On January 5, 2012, stockholders of the Company approved the Company's name change from Hansen Natural Corporation to Monster Beverage Corporation. [21] In addition, on January 9, 2012, the Company's common stock began trading under the symbol "MNST". [21]

Amazon.com, Inc. (NASDAQ:AMZN)

Share Price Gain To Date: 133,966% (as of October 2022)[20]

Amazon.com, Inc. (NASDAQ:AMZN) is the world's largest electronic commerce retailer that also operates in the cloud computing, consumer electronics, and satellite internet industries. The firm is headquartered in Seattle, Washington, the United States. [20] **Amazon.com, Inc. (NASDAQ:AMZN)** is the company that has made its founder, Mr. Jefferey Bezos, one of the richest men in the world. The firm's shares were listed at $18 on the NASDAQ exchange, and since then, they have undergone four stock splits, for a cumulative 27 to 1 split, which brings their IPO price to just $0.075. Since then, the stock has popped by an unbelievable 133,966%.[20]

These incredible gains continue to draw large amounts of attention from retail investors in particular, and one segment that catches a lot of this interest is the small stock sector.

But, not just any small stocks...

We are looking for small stocks with small floats.

CHAPTER 6

Let's Talk About the Float[22]

What Exactly Is a Company's Float?

TThe term float refers to the regular shares a company has issued to the public that are available for investors to trade.

This figure is derived by taking a company's outstanding shares and subtracting any restricted stock, which is stock that is under some sort of sales restriction. Restricted stock can include stock held by insiders but cannot be traded because they are in a lock-up period following an initial public offering (IPO).

A company's float is an important number for investors because it indicates how many shares are actually available to be bought and sold by the general investing public.

The company is not responsible for how shares within the float are traded by the public; this is a function of the secondary market. Only changes that affect the number of shares available for trade change the float, not secondary market transactions, nor the creation or trading of stock options.

Float vs. Authorized vs. Outstanding Shares [22]

While the float is the number of shares available to the public, the authorized shares are the most shares a corporation can issue. The authorized share count is laid out when the company is created. It's not required that the company issue all of its authorized shares, however.

Outstanding shares are the number of shares a company has issued. These are all the shares that can be bought and sold, including restricted shares. The number of outstanding and floating shares can vary. Thus, there can be a large difference between outstanding and authorized shares or floating and authorized shares.

Understanding Low Float Stocks (22)

Low float stocks are a popular type of investment for day traders since they may allow them to earn continuous profits throughout a single trading session.

Low float stocks refer to the securities that remain after a company's stock has been issued to its controlling investors — meaning there are relatively few for the public to buy.

Investors typically consider a float of 10-to-20 million shares as a low float, but there are companies with floats of less than one million. Some larger corporations have very high floats in the billions, and you can find even lower-float stock trading on over-the-counter exchanges.

Companies with a low float frequently have a large portion of their equity held by controlling investors such as directors and employees, which leaves only a tiny percentage of the stock available for public trading. That limited supply can cause dramatic price swings if demand changes quickly.

Because low float stocks have fewer shares available, investors may have difficulty finding a buyer or seller for them. This may make the stocks more volatile, which appeals to day traders.

Benefits of Trading Low Float Stocks (22)

Essentially, low float stocks primarily benefit day traders who are interested in earning large profits in a short time.

By their nature, low float stocks are volatile. There are relatively few low float stocks in the marketplace, and their prices tend to go up and down easily and quickly.

Moreover, every trade of a low float stock issue can have a larger impact on the value of the stock than it would on a security with a higher float.

For example, when good news hits a security with a limited supply, it doesn't take much for it to have a huge impact on the market.

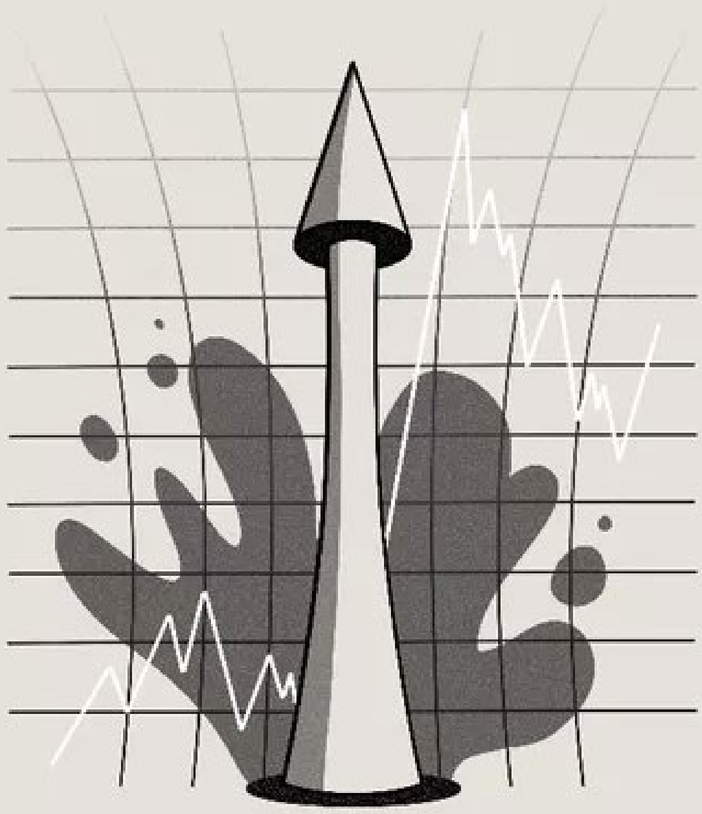
A low float stock can make gigantic gains when demand skyrockets.

Resources for researching stocks with low floats:

https://lowfloat.com/
https://finviz.com/screener.ashx

CHAPTER 7

Why Traders Love The “Short Squeeze”



Short Squeeze

['shȯrt 'skwēz]

A market phenomenon in which an unexpected rise in the price of a heavily shorted stock prompts large numbers of short sellers to exit positions by buying the stock, thus driving up the price further.

What Is a Short Squeeze? (23)

A short squeeze is an unusual condition that triggers rapidly rising prices in a stock or other tradable security. It occurs when a security has a significant amount of short sellers, meaning lots of investors are betting on its price falling.

The short squeeze begins when the price jumps higher unexpectedly and gains momentum as a significant measure of the short sellers deciding to cut losses and exit their positions.

When a heavily shorted stock unexpectedly rises in price, the short sellers may have to act fast to limit their losses. Short sellers borrow shares of an asset that they believe will drop in price in order to buy them after they fall.

If they’re right, they return the shares and pocket the difference between the price when they initiated the short and the price when they buy the shares back to close out the short position.

But if they're wrong, they're forced to buy at a higher price and pay the difference between the price they set and its sale price.

Because short sellers exit their positions with buy orders, the coincidental exit of these short sellers pushes prices higher.

The continued rapid rise in price also attracts buyers to the security. The combination of new buyers and panicked short sellers creates a rapid rise in price that can be stunning and unprecedented. Usually, a short squeeze occurs

when the stock of a company rises dramatically as short-sellers, who had earlier bet on the stock to lose value, evaluate their decision in light of unusual conditions and exit their short positions to limit losses. (26)

The explosive surge in the stock price of GameStop Corp. (NYSE: GME), the video game retailer based out of Texas, is perhaps the biggest example of a short squeeze, as it became the rallying cry for retail investors who wanted to spoil hedge fund short-seller bets. (26)

The GameStop Short Squeeze (23)

One of the greatest short squeezes in history started on a Reddit.com thread, where hundreds of thousands of retail investors banded together to drive the price of GameStop shares up to an all-time high of almost $500. Before the surge, GameStop's stock had been valued at $17.25.

At the time, approximately 140% of GameStop's public float had been sold short, so as the rally gained pace, these short sellers were forced to cover themselves by buying as much stock as possible, thereby contributing to the surge.

Low-cost, light-touch investment apps such as Robinhood allowed retail investors to buy stock in tiny amounts, meaning that anyone could join in the GameStop movement. Meanwhile, Reddit users shared investment tips and strategies in layman's terms, introducing many people to the world of investing for the very first time.

GameStop Corp. (NYSE: GME) stock has returned more than 4,000% to investors during the course of its much publicized short squeeze. (26)

Resources for researching stocks with high short-interests:

https://nakedshortreport.com/
https://otcshortreport.com/
https://shortdata.ca/
https://finviz.com/screener.ashx

CHAPTER 8

Why Traders Love The "Short Squeeze"

What Is Momentum? (24)

Momentum is the rate of acceleration of a security's price—that is, the speed at which the price is changing. Momentum trading is a strategy that seeks to capitalize on momentum to enter a trend as it is picking up steam.

Simply put, momentum refers to the inertia of a price trend to continue either rising or falling for a particular length of time, usually taking into account both price and volume information.

Momentum investors like to chase performance. They attempt to achieve alpha returns by investing in stocks that trend one way or another. Stocks trending up are referred to as hot stocks.

Investors can use momentum as a trading technique that seeks to profit off the herding behavior of market psychology. Rather than "buy low, sell high," momentum trading follows a strategy of "buy high, sell higher."

Once a momentum trader sees acceleration in a stock's price, earnings or revenues, the trader will often take a long or short position in the stock in the hope that its momentum will continue in either an upward or downward direction. This strategy relies on short-term movements in a stock's price rather than fundamental value.

Understanding Momentum (24)

Think of it as the momentum of a train. When a train starts up, as it accelerates, it moves very slowly. Once it gets up to speed, it stops accelerating but remains traveling at a higher velocity. At the end of the trip, the train decelerates as it slows down, but it can take many miles of track to apply the brakes on before finally coming to a complete stop.

For the momentum investor, the best part of the train ride is in the middle, when the train is moving at its highest velocity.

Research and Putting it all Together

The first step to trading small stocks successfully is you must be in the stocks that have the highest probability of making a big move. [13] But, how do you know which stocks will be the big movers?[13]

The simple answer is: Research!

However, you can use this guide as the playbook for researching small stocks. There are specific characteristics and parameters that you should be looking for when identifying small stocks with big upside potential.

Characteristics / Parameters:

01 Consider using "market caps" as a quick valuation tool

02 Remember: "Small stocks" have a market capitalization of under $2 billion

03 Be mindful of the 4 Tiers that small stocks "unofficially" fall into

04 Keep an eye out for stocks with a low float (less than 20 million shares)

05 Be on the lookout for stocks that could be heading towards a potential "short squeeze"

06 The Momentum trade means to "Buy High, Sell Higher"

Key Reminder: As a trader and investor, you are never done with learning. Here is a list of several websites that you can use to continue your own research:

- 1: https://finance.yahoo.com/
- 2: https://www.nasdaq.com/market-activity
- 3: https://www.marketwatch.com/
- 4: https://nakedshortreport.com/
- 5: https://otcshortreport.com/
- 6: https://shortdata.ca/
- 7: https://finviz.com/screener.ashx
- 8: https://investorshub.advfn.com/

SOURCES

- (1): www.investopedia.com/terms/m/marketcapitalization.asp
- (2):3.bp.blogspot.com/-gWLwX3NGgG8/UbmfPF_syBI/AAAAAAAAAZU/G54WiZiDyQk/s1600/marketcap.jpg
- (3): www.forbes.com/advisor/investing/Small-Cap-stocks/
- (4):https://www.investopedia.com/terms/m/megacap.asp
- (5):https://www.bankrate.com/investing/Large-Cap-vs-Small-Cap-stocks/
- (6):https://www.investopedia.com/terms/l/Large-Cap.asp
- (7):https://www.investopedia.com/terms/m/midcapstock.asp
- (8):https://www.investopedia.com/terms/s/Small-Cap.asp
- (9):https://www.investopedia.com/terms/m/microcapstock.asp
- (10):https://www.arielinvestments.com/images/stories/PDF/case-for-Micro-Cap.pdf
- (11):https://www.investopedia.com/terms/n/nanocap.asp
- (12):https://www.investopedia.com/terms/p/pennystock.asp
- (13):https://www.warriortrading.com/penny-stocks/#toc3
- (14):https://scanz.com/otc-market-tiers/
- (15):https://www.history.com/this-day-in-history/microsoft-founded
- (16):https://www.fool.com/investing/2021/06/22/3-tech-stocks-that-turned-10000-into-millions/
- (17):https://www.yahoo.com/video/10-most-successful-penny-stocks-101721114.html
- (18):https://www.insidermonkey.com/blog/5-most-successful-penny-stocks-that-made-it-big-1079900/3/
- (19):https://www.insidermonkey.com/blog/5-most-successful-penny-stocks-that-made-it-big-1079900/2/
- (20):www.insidermonkey.com/blog/5-most-successful-penny-stocks-that-made-it-big-1079900/5/
- (21): www.sec.gov/Archives/edgar/data/865752/000110465916100960/a15-23471_110k.htm
- (22):www.investopedia.com/ask/answers/what-is-companys-float/
- (23):https://www.investopedia.com/terms/s/shortsqueeze.asp
- (24):https://www.investopedia.com/terms/m/momentum.asp
- (25):www.ig.com/en/trading-strategies/what-were-the-biggest-short-squeezes-in-history--210507#gamestop
- (26):https://www.yahoo.com/video/10-biggest-short-squeeze-time-145219717.html

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