

Weighing The Risks And Rewards Of Penny Stocks

Penny stocks do not require you to have a big cash outlay to get started. All you need to spend is just a fraction of penny or maybe as much as \$5 per stock. These stocks carry tremendous reward potential, but at the same time, they carry more risks than other regular investments. For example, the penny stock may go from 20 cents to as high as 20 dollars or it may just prove worthless with literally no return.

How to Invest in Penny Stocks

Making investments in penny stocks is quite easy. Contact a brokerage service and open a brokerage account with them. Your broker will take care of the rest. However, every time you buy or sell a stock, you must pay a small fee to the broker.

How To Avoid Risks With Penny Stocks

There are always risks associated with penny stocks. Because of the volatile nature of the shares, you may even lose all your money. However, if you follow a proper strategy, you can certainly minimize the risks.

Remember that penny stocks are low-priced shares, not free. If someone offers to sell penny stocks free of cost, be alert. Two of the sources of such free offers may include an unsolicited email or a free newsletter. In most cases, these are just propaganda.

Only invest in penny stocks that are listed on the premier exchanges.

The higher the volume of the stocks, the safer your investment is. If the volume is, less than twenty thousand shares traded per day, you should understand there is something wrong with the stock.

One of the best ways to avoid risks is to do your own research. Get a feel for the company and analyze how it makes its money. Make sure that the company has a strong business plan and a good profit history. Keep an eye on the trend of improvement

If you cannot do the research on your own, it is always prudent to take the services of a professional stock-picking newsletter. As discussed earlier, a free newsletter cannot be professional and genuine. Therefore, be ready to pay for the newsletter.

Never put all your money into one stock.

More About Penny Stocks

Penny stocks are simply the low-priced speculative securities of small companies. The greatest advantage with these stocks is that they can turn your small investment into a fortune. The greatest risk associated with these stocks is their volatile nature. However, if you follow a proper strategy, you can minimize these risks.

Source: <http://www.articlecircle.com>

About the Author

David Gass is President of Business Credit Services, Inc. His company publishes a free weekly e-newsletter on Small Business Consulting at their web site <http://www.smallbusinessconsulting.com>