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# Risks in penny stock investments

Penny stocks: There is always a risk factor associated with every stock, however being traded at few counters, the penny stocks are little more risky. The risk factor increases if you avoid some precautions that are necessary.

Risks: The investment in penny stocks is highly risky due to various factors. Some of the common risks are as given below.

- There is no reliable and authentic information available for penny stocks. Whatever the information comes to us that comes either through stockbrokers or through the agents of companies offering penny stocks. The seller or broker who sells the penny stocks might get money from the company for selling the shares and therefore can mislead the investor. It is therefore necessary for the investor to carry out the detailed research before investing in penny stocks.

- It is sometimes difficult to find the buyer of specific penny stocks you have purchased from the broker even the same broker may not be interested to repurchase the stocks from you.

- Sometimes the companies having no financial asset or no financial history comes in the market and collect money from investors and therefore before investing in penny stocks, you should study the company offering the penny stocks. You should study the prospectus of the company very carefully and should see whether the share prices of the stocks are justified. Some of the dealers sometime inflate the stock prices fraudulently.

- You should know your broker, as he is the main person to whom you are dealing. Ask about him from some of the other dealers and customers. You should seek complete market information from your broker including the difference in bid and sale prices of the stocks. Ask him to provide his suggestions in writing and seek a second opinion about the recommendations he made.

- You should know the nature of the stock on offer. Many times the initial public offers are more risky than other. You should invest your money after satisfying yourself from the various factors including the financial conditions and assets of the company. Sometimes you may lose a majority of your investment or your entire investment in a specific penny stocks if a careful and wise decision is not made.

- Before making an investment in a specific penny stock, you may ask about your broker's history including any disciplinary action taken against him or her from NASD. You can also seek additional information about your broker from your state office of SEC (Securities and Exchange Commission). If still you think that you have become a victim of fraud, our federal law has provisions of rights and remedies available to you. You can file a complaint at the Securities and Exchange Commission.

Summary: Although investment in every stock is risky, even then taking some precautionary steps you can avoid risk in penny stock up to a great extent. One of the major precautionary steps is avoid hurry and do thorough research before investing in penny stocks.

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