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What are penny stocks?

Penny Stock: The penny stocks or shares are an investment options for those who have a small amount for investment and are willing to take risk. These stocks are generally available in very small amount and even a small investor can take a risk of investing few cents in these stocks.

Although there is some risk associated with every investment in financial market, penny stocks are good option for investment if you have some disposable amount, as here a small amount will be at risk. Broker or dealers trade these stocks and it is better to understand the financial terms associated with penny stocks. I would like to add that if you are looking some penny stocks for investment, you should learn more about penny stocks and you can find the relevant information about the subject on stock newsletter and message boards.

Stock Trading: Penny stocks are very speculative and have a market capitalization of around 500 million. These stocks are traded over the counter and the trading is governed by the SEC rules and guidelines on penny stocks. U.S Securities and Exchange Commission have laid down some rules for investment and trading in penny stocks and a beginner should keep these rules in mind before buying or trading in penny stocks.

SEC Rules on Penny Stocks: Broker-dealer registration compliance is must before buying or trading any penny stocks. A broker or dealer should get a written request and thereafter should approve the investor.

SEC further rules that a customer desirous to purchase a penny stock should be provided a document mentioning the risk involved in the penny stock. The broker or dealer should also inform the customer the current market rate of the penny stock and the commission that will be charged by the broker.

The provisions made in the appropriate sections also put a mandatory requirement of providing monthly statement to the investor showing rates of each penny stock held by the investor in his account.

Sometimes the other terms such as small caps and micro cap are also used for these companies and The United States Securities and Exchange Commission has defined penny stock as a low-priced below \$ 5.0 speculative securities of very small companies.

Many small companies have low assets and offer the stocks at very low price. These low price stocks known as penny stocks are traded over the counter generally in low volumes.

The Securities and Exchange Commission strictly adheres that penny stock is low priced speculative stock and the term penny stock does not relate on market capitalization or it's trading at the exchanges (NYSE, NASDAQ) or over the counter.

Summary: Penny stock's definition by the Securities and Exchange commission is strictly on the basis of its value and it does not depend on other parameters such as the companies market capitalization or its listing. Investor should carefully examine all the factors associated with penny stocks before investing in them.

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