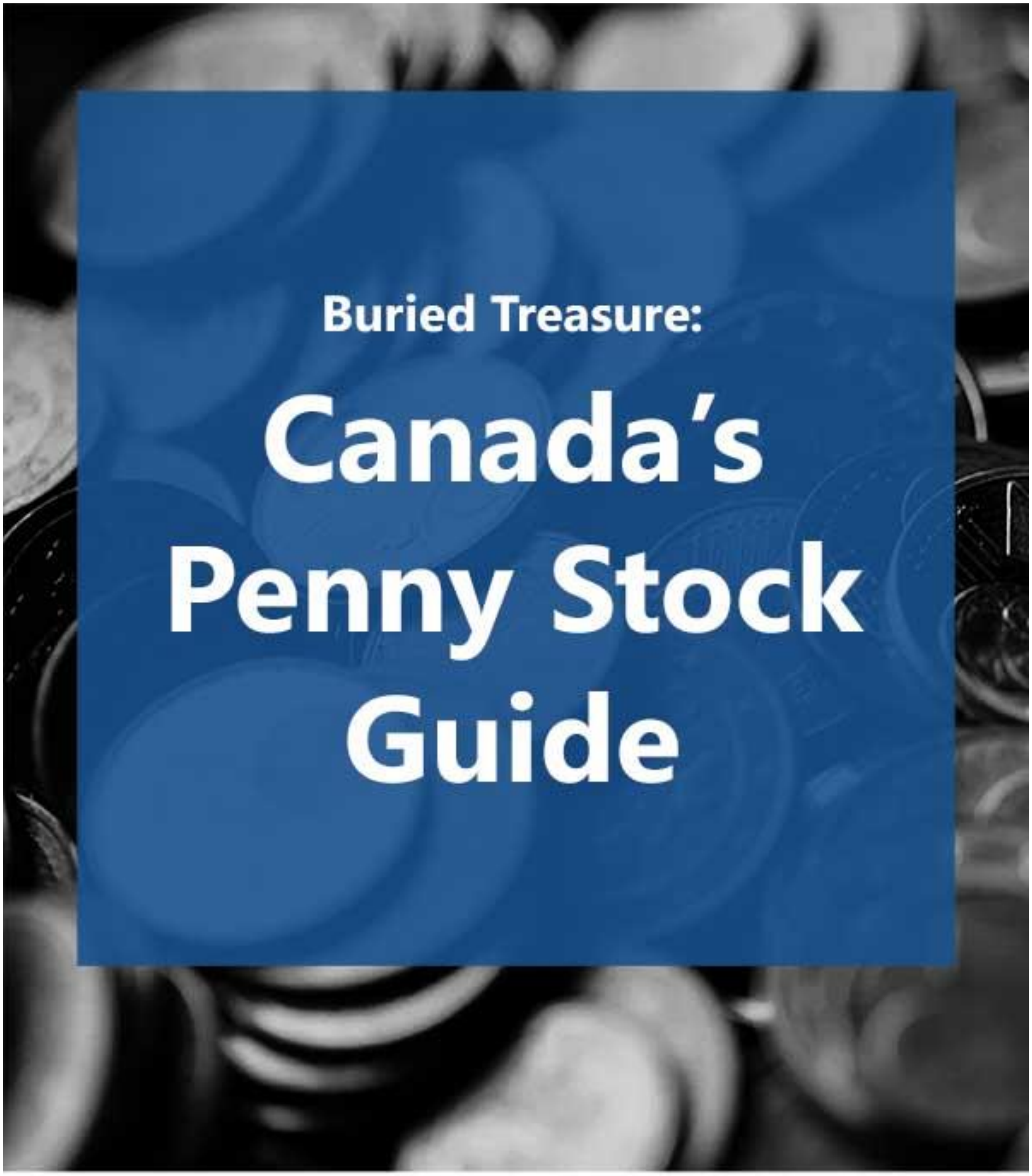

Buried Treasure: Canada's Penny Stock Guide

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Buried Treasure: Canada's Penny Stock Guide

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What Are Penny Stocks?

Penny stocks are the stocks of companies that are trading at or under a value of $5.00. And as the name implies, they sometimes trade for pennies. In general, they trade on an “over-the-counter” basis, outside of stock exchanges because they don't meet the market caps, or the number of shareholders that established markets require to allow trading. Trading on an over-the-counter basis means there is little market oversight, and fewer opportunities exist to buy and sell penny stocks.

Canadian penny stocks are often companies involved in mining, exploration, software development or new technologies. Often unproven in their industries, there are considerable advantages and disadvantages to penny stocks—if the company is successful, your investment may increase in value; but often, the opposite is true. Penny stocks rarely become the next success stories in their sectors, and often lose significant value when the venture is not a success.

Because penny stocks are often unproven companies, they are highly speculative in nature—finding mineral deposits that can be mined for a profit, commercializing new technologies or launching new software are all risky undertakings. Stock prices of penny stocks do reflect that risk, but the low prices can prove irresistible to investors looking for the next “big thing”—especially if they're already interested in finding future top performers while they're still at or near the penny stock range, before a broad mass of investors takes notice, and the stock price begins to climb.

For those who can accept the risk, penny stocks can pay off extremely well (see page 15 for the factors that can help you spot the “gems”). Even so, they should always make up a limited portion of your portfolio.

Why Investors Should be Extra-Cautious with Penny Stocks

Many investors are attracted to penny stocks because they are cheap. It doesn't take a large investment to buy a significant number of shares—for example, $1,000 can buy 10,000 shares of a stock that's trading at $0.10 cents. If you have a large position in a $0.10 cent stock, a share price rise of only $0.05 cents can make for a substantial 50% gain. However, there's a good chance the stock will decline. Being speculative ventures, the vast majority of penny stocks fail, putting your entire investment at risk if you hang onto them too long.

In addition, many penny stocks are not listed on a stock exchange like the TSX, NYSE or Nasdaq, and instead are traded "over-the-counter." These companies have minimal filing requirements and are often new businesses with very little in the way of a track record. Companies that are listed on the pink sheets (see: What to Watch out for when Investing in Penny Stocks on Page 5) don't have to meet any filing requirements at all. This lack of regulation and information makes it difficult to gain a complete and accurate picture of the company and its prospects.

Another drawback to penny stocks is that they generally have lower trading volumes or liquidity. A lack of liquidity means it may be more difficult to sell a stock when you want to. It's also possible that you may be forced to sell it at a much lower price than you would like in order to attract a buyer.

Moreover, when a stock is a thin trader, it doesn't take much buying or selling to influence its price. So if just one large investor decides to sell, it can cause an abrupt stock-price slump. This can spark a cascade of selling and a collapse in the stock's price. The resulting stock downturn can scare off other potential investors. No matter how promising the penny stock, this can make it impossible for the company to raise additional funds when it needs them. Less liquid stocks are also much more vulnerable to manipulation by unscrupulous traders or promoters (see: Penny Stock Scams on Page 6).

For some investors, the volatility in share prices is part of the appeal of penny stocks. These investors believe that it is easy to make profits quickly by buying a large number of shares in penny stocks with a minimal investment, because it's possible to make big gains in a short period of time. They often forget, however, that volatility works the other way too, and that the penny stock is at least as likely to decline in price as it is to move higher.

Be aware that although penny stocks are only lightly regulated, regulators do sometimes step in to halt trading on a stock that has jumped in price too quickly. As the regulator for over-the-counter and pink sheet stocks, the U.S. Securities and Exchange Commission (SEC) may halt trading in shares to investigate unusual trading activity. If that happens, investors will be unable to sell their stock until after the halt is lifted—potentially after the price has collapsed or is already falling quickly.

The risky appeal of the "ground floor"

Penny stocks have appeal for some aggressive investors who aim to get into fast-growing stocks at what they describe as "the ground floor." They think the best way to profit in stocks is to buy them when they are just barely starting out on a growth phase that can last for years if not decades. Ideally, they want to buy the future top performers when they are still near or close to the penny stock range and have yet to be discovered by the broad mass of investors.

These investors rarely find what they're looking for. That's because there's a large random element in investing, especially at the ground floor. Many promising junior stocks fail to thrive as businesses for one or more of any number of reasons. To borrow from the opening lines of Tolstoy's Anna Karenina, successful stocks tend to have a lot in common, whereas unsuccessful stocks tend to suffer from their own unique sets of risks and faults.

Sometimes stocks with intriguing business concepts just never get anywhere. They generate a number of encouraging news releases, but these releases turn out to be a series of exaggerations and broken promises.

Promising stocks may start out with a brilliant idea or a plan to get involved in a high-profile or fast-growing business area. They may enjoy an initial burst of sales or even earnings. But many just can't keep up the momentum. They never reach the critical mass they need to achieve consistent profitability.

This is more common in junior techs, because they compete with well-established, well-financed senior techs. The seniors have an enormous advantage in well-trained staff, sales networks, media contacts and all sorts of other business assets that can take years, if not decades, to develop.

It's worth noting that the vast majority of large, successful companies did not start out as penny stocks. Investors sometimes believe this is the case when looking at adjusted historical stock prices of companies they wish they had bought years or decades earlier. Adjusted prices take into account all stock splits in a company's past. Companies often split stock when the share price goes up high enough that it might deter some investors from buying it, and if a stock was trading at $30 before a two-for-one share split, for example, the historical price would be adjusted to $15. Looking at these prices, it may appear that the stock started trading in the penny stock range. However, companies like Walmart, Microsoft, or even Meta Platforms (the parent company of Facebook) never traded at the penny stock level—they started out at much higher levels and went up from there. This is much more common than examples of penny stocks that grew into major companies.

Where Penny Stocks Might Fit into Your Portfolio

A decade ago, investors who put their money in the stocks of many Internet start-ups made a considerable profit compared to those that kept their investments in well-established, tried and true companies. The same thing happened with those who invested in low-quality resource stocks in 2006 and 2007. Investors who sold their stock in those resource companies before they bottomed out made a larger profit from their investments than those that did not invest in the risky stocks at all.

From those examples, it can be easy to see how doing the wrong thing when investing can actually make you money, but investors need to remember that this phase is only temporary.

When the bubble bursts in a sector, penny stocks are typically the quickest to fall. Some investors get hooked on the high profits in a short time frame, but it's important to remember that penny stocks are far more volatile than the stocks of well-established companies. It's far easier to launch a stock promotion to make quick start-up cash, but it's much harder to nurture that start-up into a successful, long-lasting business.

Often, when investors lose money in speculative stocks, they assume their mistake was bad timing. This is not the case. Investing in speculative stocks is very much like playing slots in a casino. You can get lucky investing in penny stocks if you find that one hidden gem, but the house odds are against you.

This volatility is why we recommend that penny stocks only make up a small portion of an overall investment portfolio, preferably bought with money that you're willing to risk. In addition, penny stocks are best suited to investors who can accept substantial risk and can cope with the potential highs and the inevitable lows of risky investments in their portfolios. If you're wrong on a speculative stock, your losses are likely to be larger than any losses from your more conservative selections.

What to Watch Out For When Investing in Penny Stocks

Earlier, we noted that it's much easier to launch and promote a stock than it is to start a successful, cash flow positive business. As a result, penny stocks do attract more than their share of stock promoters and shady dealers. Here are a few additional things to consider before making penny stocks a part of your portfolio.

Penny stocks are generally thinly traded: Penny stocks are often traded “over the counter” or on the “pink sheets” (a holdover term from when over-the-counter stock quotes were printed on pink paper), which means that they are often sporadically or inactively traded through “market makers.”

Market makers are responsible for maintaining an orderly market for a particular stock by standing ready to buy or sell shares and to maintain bid and ask prices for their assigned shares. This makes buying and selling penny stocks more difficult and more expensive than doing the same with inactively traded shares on larger stock exchanges.

If a broker is interested in buying the stock, but there are no offers to sell, the market maker will sell shares from their own firm's account. The market maker will also buy shares if the broker wants to sell but there are no interested buyers. While the opportunities to profit from investing in over-the-counter stocks may seem extraordinary, it's often an illusion. Bid and ask spreads set by the market makers are often incredibly wide. A stock may have to increase 50% or more in order for you to begin to make money on your sale.

Over-the-counter stocks usually don’t have sufficient size, financial requirements or enough shareholders to meet the minimum criteria to trade on major markets. The goal of any legitimate company is to leave the OTC market as soon as possible.

Identifying a good time to sell: Sometimes a penny stock will announce a deal with a major company and its value will increase dramatically. When this happens, it's often a good time to sell. Also, if one major investor sells, trouble may be on the horizon—it can cause an abrupt price slump, making it difficult for even the most promising of start-ups to attract additional potential investors. This is especially true if the stock is a “thin” or “illiquid” trader because it doesn’t take much buying and selling activity to influence its price. Time is not on your side when investing in penny stocks—the longer you stay invested in volatile stocks, the more likely it is that you will lose not only your profit, but your principal as well.

Plus: 3 Big Warning Signs

Warning #1

Major company involvement is frequently exaggerated: Penny stock promoters love to make deals with major, household-name companies. They're sure the public is far more likely to buy penny stocks that have agreements with Barrick Gold or BHP Group to finance exploration of their mining claims, or if Apple or Intel has agreed to make them a "channel partner" and perhaps someday sell their revolutionary software or "cloud" application. The link with a major gives them instant credibility, especially with investors who are willing to buy penny stocks.

However, when promoters manage to make a deal with a major firm, they often go to great lengths to make it seem bigger than it is. Instead of announcing that the big company has invested, say, $50,000, a stock promoter may issue a press release saying the two companies have entered into a "multi-stage development plan." The release may say the major company has agreed to spend "up to $10 million" or some other exalted figure. It will usually provide a toll-free number or web address for investors to order or download the glossy brochures.

Above all, remember that **big companies have far more bargaining power than individual investors**: It pays to remember that a big company doesn't go into a situation like this the same way you do. If the big company agrees to spend $50,000 to study the mining property, new technology or pioneering program, it will also insist on a series of options that let it invest ever-larger sums on favourable terms. But the big company will always reserve the right to drop out and cut its losses. In most cases, it will exercise that right.

A major mining company will gladly spend $50,000 one hundred times, and lose every penny of it—a total outlay of $5 million—if this means it will get a chance to develop the one rare project that's ultimately worth an investment of, say, $500 million. If it waits till the property, technology or program has proven itself, development rights will be far more costly. So it gets in early by investing what are really just token amounts of money for a major firm. That's why big-company involvement by itself is never a good reason to buy penny stocks.

Warning #2

Low-quality penny stocks are quick to fall when a bubble bursts: In the late 1990s, buyers of Internet start-ups made far more profit than investors who stuck with well-established companies. The same thing happened when many investors bought low-quality resource stocks in 2007 and 2008, and it has happened in the past in penny stock bubbles. When the bubble bursts, however, prices of low-quality stocks inevitably come crashing down. After all, it's much easier to launch a stock promotion than it is to create a successful, lasting business.

Warning #3

The longer you play, the likelier you are to lose: If you lose money in speculative or other low-quality stocks (or funds that invest in low-quality stocks), you may think your main mistake was bad timing. That's a misconception. You can get lucky in penny stocks, just as in lotteries. But if you play long enough, the "house odds" eventually triumph over any run of luck. In penny stocks or games of chance, the odds are against you. So, time works against you. The longer or more often you play, the likelier you are to lose.

That's also why we think you should apply our **sell-half rule**. Selling half your holdings after a double is a good strategy for any high-risk investment, but especially so for penny stocks.

This can give you a clearer perspective on what to do with the other half of your investment. After all, if you are too slow to sell speculative stuff, your profits and even your principal can evaporate all too quickly.

Penny Stock Scams: Don’t get fooled by these 3 tricks

As noted earlier, penny stocks can be more easily manipulated than most stocks that trade on exchanges because of their generally low trading levels and resulting price volatility. Combine this with a lack of regulatory oversight and the fact that these companies are easy to launch, and you can appreciate why investment frauds are more common with penny stocks. There are several ways that fraudsters like to target penny stock investors, all of which include one common element—aggressive promotion.

Pump and Dumps

In pump and dump schemes, a dishonest promoter buys a big stake in an obscure stock and promotes it aggressively to unwitting investors through websites and social media accounts that may be set up to hide the source of the misleading information. After they have “pumped” up the stock substantially with promotional talk, the promoter will sell their shares at a profit before the stock inevitably falls. Small investors are left holding a stock that's rapidly declined in value, or often end up selling too late, at a loss.

In one recent Canadian example of a Pump and Dump scheme, two websites used email campaigns to inflate the prices of 39 little-known penny stocks over a five-year period. On one stock promotion, the mastermind behind the scam made $1.9 million in profit after using the websites and email campaigns to push a coal penny stock to an all-time high. In many cases, (including that case) pump and dump schemes are perpetrated without the knowledge or involvement of the company whose stock is targeted.

Biased recommendations from untrustworthy newsletters

Some investment newsletters may not be objective with their recommendations. Pay close attention to the relationship between newsletter writers and the small cap stocks they recommend. Some may be receiving a fee from the companies they promote in return for recommendations in their emails, newsletters, posts, or in their appearances on investing shows on TV or radio. They may also receive a fee in the form of free shares—motivating them to promote the stock heavily so they can sell at the highest price possible.

Boiler Rooms

“Boiler room” operations often attempt to sell shares in lesser known or obscure penny stocks to unsuspecting clients who are picked at random. These salespeople use high-pressure tactics and false or misleading information to persuade people to buy the stocks in order to earn commissions, or as part of a “pump and dump” scheme.

In one recent example of a sophisticated pump and dump scam, the perpetrators bought controlling interests in penny stocks and used calling centres in Canada, Thailand and Britain, email and social media campaigns, and fake news releases to promote worthless stock. The scam defrauded investors around the world for $140 million.

These scams show how important it is for investors to stay vigilant when considering investing in penny stocks, especially those that are aggressively promoted

Three Ways to Reduce Your Risk with Aggressive Investments

There are three key ways to cut your risks in aggressive investing, and they're essential for any investor who is trying to develop a successful approach to finding potential high return investments among speculative stocks.

- Spread your aggressive holdings out across the five main economic sectors: Manufacturing and Industry; Resources; Consumer; Finance; and Utilities. We also recommend this approach with your more conservative investments as well. That said, aggressive investors may choose to invest more heavily in Manufacturing and Resources because most Canadian penny stock activity takes place in these sectors. If you do choose to focus more heavily in those sectors, it's important to ensure that your money is still spread across the wide array of industries within each of these sectors to protect yourself against an unforeseeable industry downturn

- Stay focused on investment quality. Avoid overloading the aggressive portion of your portfolio with "penny mines." You may also choose to limit, or entirely avoid "concept stocks"- junior industrials with a business plan but have not yet established a business, much less a profit or dividend cycle. Concept stocks are risky and expose you to a total loss. Look instead for businesses that have some history of building revenue and cash flow—they are usually well beyond the start-up phase where so many companies languish and fail

- Apply our sell-half rule. Selling half of your stock after a double is a good strategy for a high risk investments such as a penny mines. If you're too slow to sell speculative stock, your profits and your principal can disappear all too quickly

Keep penny stocks to a small portion of your portfolio

Ultimately, penny stocks should always be a small part of any diversified portfolio. They should be bought with money you're willing to lose.

For the bulk of your portfolio, you can put the odds in your favour by following our three simple rules: Invest mainly in well-established companies, spread your money across most if not all of the five main economic sectors (Manufacturing & Industry, Resources & Commodities, the Consumer sector, Finance and Utilities), and avoid or downplay stocks in the broker/media limelight.

Unlike with penny stocks, this puts time in your favour. The longer you stay invested in high quality stocks, the more likely you are to come out ahead.

Look at the Bigger Picture in Each Sector

When investing in penny stocks, in addition to looking at the company fundamentals (including the members of management teams, strong balance sheets and so on), it's also important to take a look at sector-specific considerations that most often appear in technology, mining and software development because that's where Canadian penny stocks are often found.

In the technology or software development sectors, it's often hard for a start-up to compete with a well-established firm with far more capital and a healthy cash flow.

Junior tech companies, even when they have an intriguing business concept or a saleable product often don't have the well-trained staff, established sales networks and media connections or other business assets that established tech companies have at their disposal. These networks can take years to establish. Even after an initial sales and earning burst, it may be hard for them to continue the momentum—and they may never reach the critical mass required to achieve consistent profitability. As with all stocks, look for junior tech companies with good fundamentals if you want to get in on the ground floor of such an investment.

Junior mining stocks also face a unique set of challenges that are not just a result of having to compete with larger firms. Mining companies also need to focus on finding a mine that doesn't just piggy-back on the popularity of mineral areas that are in the limelight because of a recent rich find. Mining companies need to focus on finding an "anomaly"—a geological marker that may indicate a mineral deposit. A single drill hole offers a 1-in-1,000 chance of turning up such an anomaly, but the odds against finding one are 1,000-to-1. The odds of a single drill hole turning up valuable mineral deposits are about a million-to-1. We would never recommend a penny mine that has all of its value riding on a single drill hole. A series of promising drilling results is a far more encouraging sign of possible success.

One more reason to treat junior mining stocks with extra caution is that over the past few years, commodity prices have fallen and junior mining companies have become even riskier to buy. Trading volumes of these penny stocks have become extremely low because so many speculative investors have left the sector. Many mining juniors can't access financing to conduct a drill program and are essentially hibernating until commodity prices begin to rise again and speculative money comes back into the market.

These issues, along with the following additional factors, make junior mining stocks some of the riskiest investments you can buy.

With all stocks, and especially with penny stocks, it’s important to take a careful look at the company in which you’re planning to invest. Does it have a strong balance sheet, an experienced management team and good potential for future earnings? Or is it simply smoke and mirrors—over-hyped, trading at unsustainable levels or more interested in stock promotion than the development of a mine, product or service?

These key questions can set you on the road to penny stock investing success, especially if you can accept the significant risk these investments inherently bring to your portfolio and only invest with money that you can comfortably lose in a small portion of your portfolio.

How to Judge Individual Penny Stocks

Often, using the terms "investment quality" and "Canadian penny stocks" in the same sentence is contradictory. There are, however, ways to distinguish those few stocks of better quality when seeking to invest in this high-risk area. Here are seven general ways you can cut your risk:

- Look for well-financed companies with no immediate need to sell shares at a low price because selling would dilute existing investors' interests.
- Seek companies with a strong balance sheet and low debt. It's even better if there is a major partner who is financing the mine, product or production to commercialization.
- Find companies with experienced management teams with the proven ability to develop the mine, product or service.
- Avoid the over-the-counter market where regulatory reporting is lax and the market for buying and selling is usually thin. Legitimate companies worth your investment are seeking to leave the over-the-counter market as soon as possible.
- Avoid stocks trading as unsustainably high levels as a result of investor mania or broker hype. Penny stocks are susceptible to extreme highs and lows that can be influenced by such things as a major investor selling their stock (which could easily destabilize the financing of the company) or a positive news report (which, in the case of penny stocks, could send the price soaring, but for all the wrong reasons).
- Compare the market cap of the stock with the estimated future value of their assets or earning stream. Sometimes, companies need to find the money to quickly find a mine or launch a project to both justify their current share price and to avoid the collapse of their stock.
- Rule out investing in companies that are highly aggressive or misleading when promoting themselves. Instead, focus on companies that are developing a mine or launching their saleable product or service instead of selling stock or telling their story. They are more likely to be successful.

Spotlight on Canadian penny mining stocks: 10 factors that can help you find the gems

Penny mining stocks are some of the riskiest stocks you can buy. They can pay off extremely well when they succeed, of course. But these companies are trying to find mineral deposits that can be mined at a profit, and such finds are rare. So it's even more important to look for investment quality in penny mines. Here's what we look for in junior mining stocks.

1. We generally stay away from mining companies that operate in insecure and politically unstable regions, like the Congo. We generally stay away from those in countries with little respect for property rights and the rule of law, like Russia or Mongolia. That's because mining is vulnerable to political instability. You can't move the mine to another country, and local citizens sometimes believe that a foreign mining company is robbing them of their birthright, even though they need the foreign company's capital and expertise to get any value out of the ground.

2. We look at environmental constraints where the junior mines are looking for minerals. In Europe and certain parts of the U.S., junior mines need a particularly rich find to justify the costs of overcoming environmentalists' objections.

3. When we recommend junior mines that only explore for minerals, we prefer those that operate in an area with geology that is similar to that of nearby producing mines. We like to see a mine-finding effort that focuses on geological probabilities and doesn't simply attempt to piggyback on the popularity of mineral areas that are in the limelight because of a recent rich find.

4. We look for well-financed junior mines with no immediate need to sell shares at low prices. That's because doing so would dilute existing investors' interests. The best junior mining firms have a major partner who has agreed to pay for drilling, or other exploration or development, in exchange for an interest in the property.

5. We like mining stocks with strong balance sheets and low debt.

6. When we recommend mining stocks, we want to see positive cash flow, preferably even when commodity prices are low.

7. Even better, we like to see mining companies that have cash flow from an existing mine that is sufficient for, or at least contributes to, the cost of developing a second mine.

8. We want to see mining firms with experienced management that has a proven ability to develop and finance similar projects by working with other junior-mining companies.

9. We avoid mining stocks that trade at unsustainably high prices because of broker hype or investor mania about the underlying commodity (such as gold). Instead, we focus on reasonably priced mining stocks with favourable geology.

10. We avoid stocks trading over-the-counter where regulatory reporting and so on is lax.

Two penny stocks we like and two we don't

✓ **AMERIGO RESOURCES** (symbol ARG on Toronto) processes copper and molybdenum from the waste rock of the El Teniente mine in Chile. That site is the world's largest copper operation.

The company gets 94% of its revenue by processing copper. The remaining 6% comes from molybdenum.

After dropping to as low as $2.17 U.S. per pound in mid-March 2020, copper rose steadily to a record price of $5.02 on March 6, 2022. Fears of supply chain disruptions and historically low stockpiles amid rising copper demand drove prices higher.

However, copper prices have since pulled back to $3.86. That's mostly on concerns that rising interest rates will slow global economies.

Longer term, the outlook for copper looks positive. From a supply standpoint, due to a lack of new mines, long-term copper shortages could result. And as economies recover, it will push up demand—and that includes demand from sectors such as electric vehicle (EVs) and green-energy related operations.

Copper market fundamentals suggest continued strength going forward. The copper supply/demand imbalance also presents an investment opportunity for those interested in copper-mining stocks.

Meantime, Amerigo continues to buy back shares and pay dividends. The company's shares yield a very high 8.8%.

Amerigo is still a buy for aggressive investors. Recommended in *Power Growth Investor*.

✓ **BIRCHCLIFF ENERGY** (symbol BIR on Toronto) develops and produces oil and gas, mainly in the Peace River Arch area of both Alberta and B.C.

Due to lower natural gas prices, Birchcliff is cutting your quarterly dividend by 50.0%. With the March 2024 payment, investors will receive $0.10 a share instead of $0.20. The new annual rate of $0.40 still yields a high 7.2%.

For 2024, the company still plans to spend between $240 million and $260 million on exploration and development. However, due to the timing of certain projects, average production for the year will decline to between 74,000 and 77,000 barrels a day (81% gas, 19% oil) from its earlier forecast of 77,000 to 79,000 barrels a day.

Birchcliff expects its production will rebound to 87,500 barrels a day in 2028. It also expects free cash flow (regular cash flow less capital expenditures) will total $870 million over the next five years, or an average of $174 million annually. That's enough to cover its lower annual dividend payments of $107 million.

Birchcliff Energy is a buy for aggressive investors. Recommended in *Power Growth Investor*.

✖ **D-BOX TECHNOLOGIES** (symbol DBO on Toronto) has developed haptic technology to enhance the experience of watching movies, taking amusement park rides, using training simulators, playing videogames, etc.

Haptic technology is the use of physical feedback to simulate tactile experiences. This haptic feedback is brought about by software that responds to a user's interaction. Examples are many—like when a controller vibrates during certain actions performed in a videogame or when a smartphone provides a button-clicking noise and/or sensation as the user presses the screen.

D-Box's commercial customers include movie theatres. Its technology can make theatre seats sway and vibrate during the film, to synchronize with and complement the sound and motion on the movie screen. Other customers include arcades, planetariums, theme parks, simulated racing software publishers, and simulation and training services providers. In addition, family entertainment centres are buyers of its haptic technology and products.

The company has not yet achieved any sales or profit milestones. It recently completed a strategic review but declined to sell certain businesses or the entire company. Instead, it will continue to focus on commercial markets, specifically in theatrical, racing simulation, and professional simulation and training.

We don't recommend D-Box Technologies.

✖ **HYPERFINE INC.** (symbol HYPR on Nasdaq) is a medical device company based in Guilford, Connecticut.

Hypefine designed its Swoop portable MRI (magnetic resonance imaging) system to be wheeled directly to a patient's bedside. The device then plugs into a standard electrical wall outlet and is controlled by an Apple iPad. That mobility represents a change from current MRI technology that forces patients to come in to get scanned.

Swoop was approved by the FDA in 2020. It has since received approval for brain imaging in the European Union, the U.K., Canada, Australia, New Zealand, and Pakistan.

While the Swoop device is much cheaper and more portable, the images created by the bedside device are less detailed than what you get from full-sized MRI machines.

That means the goal is not to replace conventional MRI, but to expand how MRI is used. For example, Hyperfine envisions using Swoop in the neurological ICUs (intensive care units) to quickly assess patients too ill or unstable to be wheeled to a conventional MRI or a CT machine. (CTs produce a type of 3D X-ray.)

Still, Swoop's role as a complement rather than a replacement for conventional MRI systems limits its overall appeal in today's highly competitive medical-device industry. In addition, medical professionals can be slow to adopt new technologies, so Hyperfine will need to continue its high spending on sales and marketing.

We don't recommend Hyperfine Inc.

Conclusion

Penny stocks have the advantage of being cheap. And they offer the promise of tremendous profits. When small companies succeed, their share prices can soar to great heights in a hurry.

But only a minority of penny stocks will achieve this runaway success. It is far more likely that you will lose money. There is also the risk of getting caught in a stock promotion scheme in which the promoters have every interest in attracting money to the stock and little interest in building a company.

However, if you are aware of the risks and carefully follow the guidelines we outline in this report, it is possible to reap once-in-a-lifetime rewards with a winning penny stock.

Still, we strongly advise that penny stocks form a small portion of your portfolio. The bulk of a successful investment portfolio should consist of stocks selected with the aid of our three-part investing program. This forms the core of all the advice you get in our newsletters and investment services, and on TSI Network.

These three safeguards will tend to limit your losses at the worst of times. But over long periods, they also let you profit nearly automatically.

1. Invest mainly in well-established, mainly dividend-paying companies.

> When the market goes into a lengthy downturn, these stocks generally keep paying their dividends, and they are among the first to recover when conditions improve.

2. Spread your money out across the five main economic sectors (Manufacturing & Industry; Resources & Commodities; Consumer; Finance; and Utilities).

> This helps you avoid excess exposure to any one segment of the market that is headed for trouble. Diversifying across the five sectors will also dampen your portfolio’s volatility in the long term, without the shrinking in its potential that you’d get if you invest significantly in bonds yielding little more than 4%.

3. Avoid or downplay stocks in the broker/media limelight.

> That limelight tends to raise investor expectations to excessive levels. When companies fail to live up to expectations, these stocks can plunge. Remember, when expectations are excessive, occasional failure to live up to them is virtually guaranteed, in the long term if not in the short.

These three investing philosophy principles guide us in every portfolio we manage. Using these three value-investing principles will help protect your money during periods of market turbulence, and help you profit when the market rises.

About TSI Network

With over four decades of experience as an advisor, commentator, editor and publisher, Pat McKeough has a long record of determining which stocks are bound to reward investors most.

Over the past two decades he has been the editor and publisher of a growing series of investment newsletters through *TSI Network.* Pat also offers two investment advice services, *Inner Circle* and the advanced *Inner Circle Pro*. Since 1999, he and his team have put his investment approach to work for private clients in his Successful Investor Wealth Management business.

His philosophy is anchored in safety and a balanced portfolio to generate accelerating gains for subscribers and clients. TSI Network now publishes seven newsletters for every kind of investor:

1. ***The Successful Investor***—Pat's flagship advisory continues to be a beacon for Canadian investors seeking growing gains and reduced risk with the best Canadian stocks.

2. ***Power Growth Investor***—If you like the idea of "a conservative approach to aggressive investing", this advisory has Canadian and U.S. stocks with escalating growth potential.

3. ***Wall Street Stock Forecaster***—Your portfolio is much stronger with at least 20% in U.S. stocks—and this special advisory covers the 70 best U.S. stocks for Canadians.

4. ***Canadian Wealth Advisor***—A 'safety-first' advisory offering you the best conservative strategies based on well-established Canadian dividend stocks, ETFs and REITs.

5. ***TSI Dividend Advisor***—In this advisory, our exclusive Dividend Sustainability Ratings® will change the way you look at dividend stocks—and the way you invest in them.

6. ***Spinoffs & Takeovers***—If you'd like "the closest thing to a sure thing in investing," this advisory on spinoffs and other special opportunities is utterly unique.

7. ***The Best ETFs for Canadian Investors***—This ground-breaking publication shows you how to get the best results with ETFs as these investments explode in popularity.

In 2002, Pat founded his ***Inner Circle***, offering investors more personal attention, plus access to his four original publications. Members can ask Pat personal investment questions. They also get his commentaries and answers to questions posed by other Inner Circle Members. In 2017 he launched ***Inner Circle Pro***, an advanced group that receives all seven of his newsletters.

Through ***Successful Investor Wealth Management***, Pat and his team manage over $1 billion for individual Canadian investors. Free of comprising ties to brokerages, with no hidden costs or commissions, the team charts an independent course for clients. For the past 18 years the portfolios they manage for clients have enjoyed an uncommonly high annual average return.

You will find more information on all of these services at www.tsinetwork.ca.

Successful Investor Wealth Management

Pat McKeough offers personal portfolio management advice to a number of individual investors, his Successful Investor Wealth Management clients.

Before becoming our clients, many followed Pat's advice through our investment newsletters. Others were referred to us by satisfied portfolio management clients. All benefit from the fact that this service is free of the conflicts of interest that distort so many other sources of investment advice.

A strong team of experts contribute an enormous amount of time and research to the Successful Investor Wealth Management service. But Pat personally approves every transaction in every portfolio.

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