Penny stocks can be costly

Some people who don't know much about the securities industry buy "penny stocks", hoping to make huge profits overnight. But before parting with their money, consumers should find out more about the big risks involved with penny stocks - so named because a share often costs less than a dollar. The Ontario Securities Commission has published a new, free brochure on the subject.

"Inexperienced investors who have only a little money to play with often think penny stocks are a good buy," says Monica Zeller, communications officer at the commission. "Our new pamphlet, Penny stocks: Information for investors, explains why only *experienced investors* should take on the risks of speculating in penny stocks."

Some inexperienced consumers with only a little money to invest may feel more comfortable talking to broker-dealers over the phone than they would walking into a major brokerage firm. They may feel awkward when confronted by financial terms they don't fully understand.

"But it's often easy for unscrupulous sellers to convince the person who doesn't know much about securities to invest in high-risk penny stock," says Zeller. "These salespeople can be very persuasive. Unfortunately, high-pressure sales tactics are common in this business."

Zeller describes a common approach. Someone calls and offers to send a free finance-and-investment newsletter. You give them your name and address and they may send you some information. Then, a few months later, another person calls. They say they're a stockbroker putting together a deal so sweet it'll make you rich overnight, but you'll have to act quickly or all the stock will be sold. In addition to the great returns, there's little or no risk, and you only need to invest a small amount of money.

By the time the sales pitch is finished, buyers are often so excited they commit money without asking for a prospectus -information about the company in writing - or directly calling the firm they're buying into.

They may not know broker-dealers are entitled to keep as much as 35 cents of each dollar paid for a stock as their commission, a huge amount compared with the three to eight per cent normally kept by brokerage firms. This makes penny stocks profitable enough so brokers will be interested in selling them.

But there's a big down side. Broker-dealers can influence the prices of these stocks through manipulation. Convincing people to buy stocks in poorly managed companies that are almost worthless can raise prices artificially. Later, when the sellers have made their commissions, the stock prices often fall to rock bottom - where they should have been in the first place.

To receive a free copy of the brochure Information for investors: Penny stocks, write or call the Communications Section, Ontario Securities Commission, 20 Queen Street West, Suite 1800, P.O. Box 55, Toronto, Ontario M5H 3S8 telephone (416)593-8120.