Buy Sell and Short Your Way To Profits

How to consistently make money in the stock market

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HELPING TRADERS MAKE A LIVING TRADING!

Biotech Sector

- Easiest and quickest place to make AND lose money
- Biotech stocks trade on HYPE and HOPE, the perfect ingredients for euphoria
- Biotechs under $5 tend to offer the best returns
- Even when bios tank they always manage to rise from the grave
- Drugs that fail can always be resurrected!
- ANY hope means greed takes over and traders speculate which is why biotech stocks can be so lucrative
- Biotech of course carry risk, out-sized gains can be had but also out-sized losses too

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Biotech 101

- Drug trials progression
  - Clinical trials
  - Phase 1 trials
  - Phase 2 trials
  - Phase 3 trials
  - FDA Approval/denial
- Clinical trials – this is the exploratory stage where concept means reality
- If the drug shows promise Phase 1 trials are started
- Phase 2 trials are a progression in the drug trial . This is when the hope and hype start to enter a bio stocks price. Good P2 data and entry into the next stage, Phase 3 trials, tends to see biotech stock prices explode
- Typically late in the Phase 2 trial is when the bad news risk begins. Drugs fail and tend to get abandoned in late Phase 2 trials
- Even when a drug makes it to Phase 3 the risk for failure increases exponentially. A drug that showed major promise in Phase 2 trials can crash and burn in Phase 3
- Late Phase 2 and early Phase 3 is also where financing typically occurs

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Biotech 101 - Reasons for pops

- Clinical trial news
- Patent awarded
- Orphan Drug status
- Positive Phase 1, 2 or 3 news
- Partnership deals
- Sector events – Peers drug approval/deals
- FDA Approval

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Biotech 101 - Reasons for drops

- Orphan Drug status for competitors
- Negative Phase 1, 2 or 3 news
- Financing deals – aside from bad trial news this is the biggest reason for price drops
- Bad news in sector/peers
- FDA Denial

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Biotech 101 – Bio Season

- Biotechs tend to outperform the market from February to June every year. During this time there are several biotech conferences (ASCO, analyst days etc)
- There is a mini ASCO conference in March and the BIG DADDY conference the 1st week of June
- ASCO is the American Society of Clinical Oncology
- The cancer stocks tend to start any and all biotech momentum
- Many biotechs tend to release their good drug trial data at these conferences and the media focuses on it
- Media attention and trader attention = HYPE and PROFITS!

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Biotech 101 Price Ranges

- Under 50c – tend to run from 20c to 55c
- 50c to $1 – run from 50c to 90c
- $1 to $2 – run to $1.50 area
- $3 to $5
- Most active and profitable price range is the 50c to $2 area
- Additional risk for stocks under $1 is delisting

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Biotech 101 - CASH

- The BEST way to play biotech stocks is by using their CASH position, especially in bad market environments
- When fear hits the markets speculative stocks like bios get taken to the woodshed
- Look for bios that have lots of cash
- Bios that trade at or below their market cap represent plays with SMALL risk and big upside rewards on hype
- Look for bios with NO debt and then look at their cash
- If the company has cash that is MORE than its market cap it's usually a good buy
- THIS is the BEST way to trade bios especially when stocks are in a bear market
- Also, this cash angle helps you put a FLOOR price expectation on a biotech that has a bio tank on news. The cash price of a stock tends to offer a support level for a stock

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Biotech 101 - CASH

- ADLR is an example. In June 2010 ADLR had bad news on one of its drugs. The stock plunged 30% from \$1.59 to \$1.00

- ADLR at the time had \$1.34 in cash per share. After the initial selloff the stock rebounded to \$1.20, a 10% discount to its cash. Cash is KEY when it comes to biotechs

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Biotech Stock Risks

- The top risk for biotech stocks is BAD DATA!
- By bad data we mean bad trial results
- Bad trial results tend to occur in late Phase 2 trials into late Phase 3 trials
- MOST drugs do NOT make it to market so the failure rate is HIGH in Phase 3
- Phase 3 is also when financing tends to occur. Initial funding of the concept in Phase 1 has run out and the companies go to investors for money
- Dilution risk occurs
- Biotech dilution tends to be on the bad side and funds that give biotechs money tend to ask for steep discounts

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FDA Risk

- ARNA Hype meets Reality
- FDA has not approved a diet drug in some time
- The "sheeple" HOPE for riches and instead get bent over
- $7 to $1.60 in a week
- Bios with bad news always gap DOWN huge so using stops does not work as the stock often opens WELL below stops/supports

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FDA Risk

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Types of Financing

- Share sale
  - Company sells shares of a stock for no discount, at market prices, EXTREMELY rare and usually only done by other companies investing in a company
- Share sale at discount
  - Hedge fund buys shares from a company at a discount, usually 10-25%, sometimes more. If a stock is trading at $2 they sell shares for $1.80
- Debt sale
  - Company borrows money from a bank or fund for a certain term and percentage – good for stockholders as no share dilution
- Convertible debt sale
  - This can kill stock prices. Co borrows money from a hedge fund that can be CONVERTED in common stock at a certain price
- Toxic convertible debt sale – worst kind
  - Co borrow money from a fund that can be CONVERTED into common stock at NO SET PRICE – this is an open invitation to shorting

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Convertible Debt Risk

- A must do research for penny stock traders is looking at SEC filings to see if a company has ANY convertible debt.
- Convertible debt almost ALWAYS indicates illegal shorting of a stock
- Many small caps CFO’s are either stupid or crooked when they do convertible debt offerings
- Why?
- ABC Fund gives a company $10m in convertible debt. That $10m can be converted into common shares at a price of $1. What the ABC Fund usually does is IMMEDIATELY short $10m of the companies stock in the open market (and many times BEFORE, more on this later)
- Typically the debt is convertible at a stock price that is LOWER than the current price

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Convertible Debt Example

- XYZ co issues $10m in convertible debt
- Stock price is $2, conversion price is $1.50
- ABC Fund begins to SHORT XYZ stock at $2
- They short 5 million shares at $2 recouping their $10m “investment”
- They AUTOMATICALLY have a $2.5m profit because they can cover their shares at $1.50
- 5 million shares X $0.50 discount
- HOWEVER it does not end here. What typically happens is they continue to short. Many times the volume is low on these and shorting of 5m shares drives the stock price to $1.25. At $1.25 the Fund has made $0.75 a share on 5 million shares or $3.75m.
- Remember they are STILL owed $10m by XYZ co
- TOXIC convertible debt is a stock price killer because the conversion price is based on a 10 day AVERAGE price. Therefore the fund continues to short the stock, driving the price lower and driving their DISCOUNTED conversion price lower. They cant lose and cant be squeezed
- This is typically called death spiral financing
- It used to be commonplace on OTCBB/Pink Sheet stocks but in recent years has spread to Nasdaq and Amex stocks

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Devil in the Details - OXGN

- 8k Filing
- As previously reported, OXiGENE, Inc. (the "Company") began to sell shares of its common stock, $0.01 par value per share (the "Common Stock") on August 11, 2010 pursuant to the At Market Issuance Sales Agreement dated July 21, 2010, between the Company and McNicoll, Lewis & Vlak LLC (the "ATM Sales").
- Also as previously reported, in March 2010, the Company entered into a definitive agreement with institutional investors to sell shares of its Common Stock and four separate series of warrants to purchase Common Stock in a private placement (the "PIPE"). The Series A, B and C warrants issued in the PIPE transaction (collectively, the "Warrants") contain "full ratchet" anti-dilution protections, which provide that the exercise price of the Warrants will be adjusted downwards, and the number of shares of Common Stock underlying the Warrants will be adjusted upwards, in the event that the Company issues securities at a price that is below the then-current exercise price of the Warrants.
- As a result of ongoing ATM Sales, the anti-dilution protections of the Warrants have caused further changes in the numbers of shares of Common Stock underlying, and the exercise prices of, the Warrants, as follows:
- The Series A Warrants, which were initially exercisable for an aggregate of 6,578,945 shares at an exercise price of $1.52 per share, are now exercisable for an aggregate of **35,701,520 shares at an exercise price of $0.2801 per share**, for an aggregate exercise price of $10 million. The Series A Warrants will expire on March 11, 2015 if not exercised on or before that date.
- The Series B Warrants, which were originally exercisable for an aggregate of 6,578,945 shares at an exercise price of $1.14 per share, are now exercisable for an aggregate of **26,776,138 shares at an exercise price of $0.2801 per share** for an aggregate exercise price of $7.5 million. The Series B Warrants will expire on October 12, 2010 to the extent not exercised on or before that date.
- The Series C Warrants, which were originally exercisable for an aggregate of 6,578,945 shares at an exercise price of $1.14 per share, are now exercisable upon certain conditions for an aggregate of **26,776,138 shares at an exercise price of $0.2801 per share** for an aggregate exercise price of $7.5 million. One Series C Warrant held by a PIPE investor will become exercisable for every Series B Warrant that is exercised by that investor. To the extent that any Series C Warrants become exercisable, they will expire on June 30, 2015 if not exercised on or before that date.
- To the extent the Series B Warrants are not exercised in whole or in part on or before October 12, 2010, up to 53,553,276 common shares currently issuable under the Series B and C Warrants will cease to be issuable on that date.
- The Series D Warrants issued in the PIPE do not contain anti-dilution protections, and accordingly were not affected by the ATM Sales.
- In the event that the Company issues shares of Common Stock at a price per share that is below $0.2801 prior to the expiration dates of the Warrants, the anti-dilution protections of the Warrants will cause a further decrease in the exercise price of any outstanding Warrants and a further increase in the number of shares of Common Stock underlying any outstanding Warrants. The Company expects to make further ATM Sales from time to time, subject to market conditions and the Company's cash requirements.

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OXGN Example

- On March 10th, 2010 BEFORE the deal OXGN was trading at $1.30 for a market cap of roughly $100m on 73m shares outstanding
- They sold $7.5m worth of shares that gave away 60% of their company
- FIVE months later OXGN was at 28c with 180m shares outstanding. The $7.5m financing created 96m shares of OXGN worth approx. $27m
- And this does not include all the money made SHORTING the stock from $1.30!
- Toxic financing = DEATH to a stock

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Devil in the Details - OXGN

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