THE BIOTECH "CATALYST TRADER"

Besides helping you to improve your trading and investing skills, part of our job here at Income&Assets is to introduce you to both different sectors of the market and different styles or types of trading in order to give you more trading and investment options. You can always improve your trading skills by learning from alternative forms, styles and areas of trading.

Most people are familiar with big biotech firms like Gilead, Celgene and Amgen. However, few are familiar with the small cap biotech stock arena populated by little companies without income that are struggling to make ends meet. These companies raise capital running on the hope that their potential drug invention will eventually be approved for sale by the FDA. They periodically make announcements to update investors on how their potential drugs are faring with Phase 1, Phase 2, and Phase 3 clinical trials.

You can buy these stocks on the long side when you expect an upswing before a major news announcement, or short them after a news announcement. Learning how to do so are the in's and out's of becoming a successful catalyst trader, for the news announcement is called a "catalyst" that affects the fortunes of the stock and the company.

To explain the how-to's of "binary event catalyst trading" we asked Mark Messier, founder of BioRunUp.com, for an interview on how to find the best biotech catalyst opportunities, and how to safely trade these stocks a few weeks or months ahead of these dates. This is a different type of trading than that based on normal technical or fundamental analysis and it has its own particular rules of do's and don'ts. I hope you find the interview informative because I've gone out of my way to get Mark's exact trading rules for you, and hope you find insights applicable to your own personal trading style as well especially his emphasis on emotional control.

Mark, why don't you tell us your background and how you got started in trading?

My background is actually in criminal justice. I got certified as an intelligence analyst for the Department of Justice in California, and I was working for a local law enforcement agency doing criminal analysis and intelligence analysis. My family has a blue-collar history of law enforcement, but it wasn't really the angle completely that I wanted to go. I didn't want to be out there on the streets getting shot at. I was doing the criminal analysis type of thing, however, which was always interesting to me.

Can you give us an explanation of criminal analysis and intelligence analysis? Does that background have anything to do with your development of skills in trading the markets?

It's basically studying human patterns and that's kind of where I think the match to trading is. I believe that so much of being successful in trading depends on human psychology, understanding the emotions involved in trading and what people are thinking and doing before they do it.

I think this plays closely to criminal justice in terms of tracking crimes because part of what we would do was *pattern analysis*. It is part of crime analysis to basically try to predict what was going to happen before it happened, and this is very similar with the stock market as far as analysis is concerned. You are basically studying human patterns by using trading patterns and saying, "Okay, this worked in this particular sector or for these particular stocks" or "There were these particular ingredients that went along with the run-up and it was a very successful trade." You can even backtest these types of analysis to conclude, "Wow, that made a huge run, it was a very good position" so that you can then look forward to similar results for the same pre-conditions in the future.

What are the criteria for certain stocks that I want that will show me they have it all set to make a good run? The biotech sector is a perfect area for that kind of analysis and that kind of trading because it is all *catalyst based*. You can see what worked in the past and then just look for those types of positions coming in the future as you are going forward. When you are looking to pick a buy for a certain type of stock you have to set out the right ingredients and make sure they are there before you buy the position.

This criminal analysis analogy sounds really interesting but it's still a bit theoretical to me. Can you give us some examples of what criminal analysis is and what you would actually do?

Basically with investigative analysis we would read all the case details of a crime. Say it was a bank robbery. I knew the patterns that the criminal used. Obviously they hadn't been caught yet but we knew the time of the crime or day of the week that they went into the bank, the clothing they were wearing, the type of bank, where was it located and so on. That's kind of a basic scale. In other words, we basically tried to figure out some patterns of a serial case so that we knew where to move resources to possibly catch the criminal in the future. That's an example of the analysis done for somebody who is robbing banks in a serial fashion and how we would try to best determine where they most likely were going to hit next.

In other words you would say, "Here is an unsolved case, let's try to find any possible patterns within it." Then you would use your analysis to predict where it's possibly going to happen next, and then you would put the resources there?

My mind has always kind of worked in that way. I learned how to pick a direction and that's kind of how my mind works. I didn't know it at the time, but it was a nice transition into the stock market.

When you initially went into the stock market, would you say that you were a fundamental trader back then or a technical trader? For instance, were you looking for patterns, as per your criminal analysis career, of fundamental pre-conditions (such as the right P/E ratio) and then expecting those types of stocks

to go up? Or were you looking for technical chart patterns that they had to satisfy before you expected them to rise?

It's kind of a mix, especially in how I started. What happened was that I had a little bit extra money when I was in college because I had worked for Bank of America for a short period of time. When I was working for Bank of America the stock was at $40 or $50 a share. I hadn't looked at the market in a long time and it was late 2008 and then the beginning of 2009. I was just listening to the radio while I was driving for work and I heard that Bank of America was down to like $3 a share. I couldn't believe it. I was like, "What the hell is this?"

I was basically ignorant as the market fell apart in 2008 because I wasn't trading the market. When I finally heard the share price of the one ticker that I was familiar with I was like "holy crap." I knew what a big company Bank of America was because I had worked for them, and I thought - it was partly a little naive on my part - but I thought this company is too big to fail, I have a little bit of money, and I know where it was trading before. I thought that maybe it was a good idea to take some of that money and start using it in the market and so I did.

That was basically my first foray into trading, which was that I bought Bank of America stock. That trade kind of gave me a taste of the market. Bank of America went up and I then doubled or tripled my money. It wasn't very much money at all. This is going back to my initial $2,480 I started with in trading in March of 2009 so that was the start of my involvement with the stock market.

While I was researching Bank of America I got really into researching stocks, and then I started noticing other tickers around. One of them was Cell Therapeutics, which is CTIC, and that was the first biotech stock that I ever bought. It was under a dollar at the time. I forget the exact pricing, but I made a big gain on it. It was like an overnight thing. It started to get some momentum going into a catalyst date. I can't remember if it was a clinical trial or if it was a FDA decision, but there were some sort of catalyst and I watched what took a while for Bank of American to make a move happen much more quickly with CTIC, a biotech stock.

I thought, "Wait a minute here," and I started looking into different biotech stocks and started finding other ones that had similar catalysts whether it was a Phase 3 trial (that's basically where you get an outcome on a drug in a medical trial) or whether it was a FDA decision. I noticed something incredible with a FDA decision that, because it's government regulatory agency, they actually gave a day where they were going to render the decision. I started to find those biotech stocks that were small cap, small company but had progressed to the point where they were able to submit a drug to the FDA.

These stocks are at the point where the whole company is riding on this decision that the FDA is going to give them. They are not like Pfizer, which every couple of weeks has a drug coming up for a FDA decision and which has blockbusters in the pipeline. We're talking small cap companies that have built their company around one drug. The FDA decision is a make it or break it type of event, but you have a date to trade around for that event.

In my research I started to notice that there is a price run-up pattern around those decisions and that's where the name of my website "BioRunUp" came from. I started to notice a pattern with biotech stocks, namely that they would "run up" to these catalyst dates. The beautiful part about it was that when we are talking about a regulatory catalyst like a FDA drug approval decision, that date wasn't something nebulous like "sometime in the first quarter" or "sometime in the second quarter" for when the government was going to announce a decision on whether the drug was approved for public sale. You had a specific date like "March 16, 2015" for example.

You had the exact date?

Exactly. I consider myself to be pretty conservative and so it provided a date to trade around. I noticed something when I looked at the patterns of these dates. I started to pull up previous biotech stocks and they all made a similar move. Around three months before a FDA announcement there wasn't much volume in the stock and then as it got closer and closer to the catalyst it just ramped up. This happened every time because everybody started talking about the upcoming decision. It was a big deal for the company and so the share price would go up, and it happened every time.

I was like "Why can't I locate these biotech companies that have catalysts that are definable?" The best ones are the FDA decisions because with those you have an exact date. But companies at times will give pretty specific guidance even on clinical trials. They will say that they will announce results "maybe in late April" or "we will present at this conference at this date."

My goal and focus since that time has been locating biotech stocks that have defined catalysts where I can safely enter the trade when nobody is talking about them, and then hold into the position while everybody starts to talk about them. Before the attention is focused on the stock, every time you will be thinking "When is this one going to start to move?" and then suddenly out of the blue everybody is talking about it and it runs up to that catalyst. Then you have a choice. You have a decision to make.

Personally, I don't like to hold through catalysts. I have seen them become positive and then there is a sell reaction on the news announcement (a "sell on the news" reaction), which is extremely common in biotech because there are a lot of retail traders that come in and when they don't see the stock immediately move in the direction they want on a positive catalyst then everybody sells at once and the share price drops. There are just so many variables after the fact of an announcement that can hurt the stock price whereas you can consistently be making gains up until that point. That's why I like to exit positions before a catalyst announcement date. There is no need to take the risk of holding the stock through the actual catalyst itself when you already have substantial gains and there are plenty of other biotechs to roll to the next catalyst.

It seems you are like a lot of professional traders who have weaned themselves off emotions to become successful. It sounds like you are just trying to make money with the trade and then go onto the next one rather than trying to hit a big home run. You just want to make some money with minimal risks and then move onto the next trade.

Absolutely. I found over time that there are so many catalysts and trades that you can be in without taking that risk of holding on through the actual event. This is one of the rules for this type of trading: you can't fall in love with a biotech stock. I have seen people do that so many times. They fall in love with the story, they fall in love with the drug, they start dreaming of huge gains and sales and the stock going up ten times overnight. They fall in love with the stock and become blinded at anything that could be a negative sign about the company, and they end up getting hurt.

Let me summarize everything so far. You got involved in trading because you were working at Bank of America and bought some stock after its price collapsed figuring that it would have to rebound. Afterwards you looked around at other low priced stocks and noticed that one of them, which was a biotech stock, started moving like crazy even faster than when Bank of America stock rebounded. That's what steered you towards focusing on the biotech sector.

Exactly, and I noticed a trend. If this small cap stock can move this quickly, I figured, there has got to be more like them. What are the key ingredients, what's the trend that's the same with this? Number one was that they were biotech stocks and number two was because there are definable catalysts.

I don’t do this for large cap drug companies. For instance, you will have Pfizer get a FDA approval and the stock will only go up half a percent. There is no move. What really breaks it down is companies where they are really financially riding on this decision to come home. At BioRunUp.com we keep a database of mostly small company biotechs and there are over 300 companies in there with potential catalysts coming up.

Does that mean there are 300 potential trades in a year, or would it be 600 potential trades a year because of two dates? Can you explain for our members what those dates are and the difference between a FDA decision and clinical trial announcement. How many trades are potentially possible a year?

I would say that in the small cap space there is probably up to a thousand trades potentially because companies have multiple catalysts. I will try to break it down, but I don't want to get too technical and overload people with information because it sounds much more difficult than it is. But basically, between getting a drug from testing to approval it goes through Phase 1, Phase 2, Phase 3, and then the company can submit the drug to the FDA for a decision on whether or not it can sell the drug.

Each clinical trial gets larger and larger and larger. In Phase 1 they might merely have 10 people they test the drug on, and then in Phase 2 they may involve 150 people, and in Phase 3 they may have 1,500 because they just move it along within the process. The higher the phase clinical trial usually the more the stock will react because it is just one step closer to getting to the point where they can submit it to the FDA for review of all the data. The FDA will assign them a date where they will issue them a decision and then once they get that positive decision they can market it and sell it and that's when everything happens.

One company from beginning to end can have multiple catalysts through the entire process for one drug. You have Phase 1, Phase 2 and Phase 3 and then the FDA's submission. Some companies like CTIC … I am still trading CTIC, which was the first biotech I ever traded and I think this is the same drug as five years ago. It takes years to go through the whole process.

In other words, a Phase 1 catalyst would be a company's Phase 1 announced clinical trial results, a Phase 2 catalyst is the company's Phase 2 announced clinical trial, and a Phase 3 catalyst is the same thing whereas the "FDA decision" is the final one where the FDA gives the biotech company a binary "yes" or "no" decision on whether they can market the drug or not.

Yes. One word we use all the time its PDUFA, which stands for "Prescription Drug User Fee Act." It's the law that Congress passed allowing drug manufacturers to collect fees to help fund the drug approval process, but that's basically what the FDA calls the process of issuing approval for a drug. The FDA catalyst is the PDUFA date. The FDA decision, or FDA catalyst, is the PDUFA.

You mentioned that there is usually a substantial price run-up in biotech stocks before a company's catalyst, which is what you trade on the bullish side. What's the best lead time ahead of the catalyst dates that is optimal for getting into a trade? Other than just the upcoming date alone, Is there also an accompanying volume pattern or chart pattern that is necessary for a potential trade? What's the normal lead time before a catalyst and how do you actually decide whether to get into a particular trade when there are so many options available?

Usually it depends on the market. One part doesn't depend on the market, which is that with standard reviews we will know about ten months ahead of time when the FDA decision date is. That's part of the process. They submit to the FDA and then the FDA says, "Okay, we've accepted your submission and we will issue you an approval decision on this date in the future." For a standard review that's about ten months out. For a priority review, if the FDA says this is a drug with an unmet need that's six months out.

We have those dates that far in advance. Usually the biotech stock does not start to move until right before a catalyst. We are in a bull market right now and biotechs are really hot right now so anything with a catalyst date is going to really start to run. If it's a market like this, three to four months out you can buy the stock and just tuck it away.

Obviously there are other factors that I look at like if the company needs to raise cash, how much they're burning, etcetera because I may not want to buy a stock four months out if they are running out of cash and I know they are going to offer before the catalyst. Then I may hold off, but generally speaking in a bull market like we are in, three to four months out you can buy the thing and tuck it away.

You have 300 of these potential dates. How do you tell which ones to trade? What are your specific criteria?

In order to get down to an actual FDA decision we have a database with over 300 catalyst events in it. Within a year there are probably 15 to 20 that actually come up for a PDUFA, meaning a FDA decision. Those hundreds of events then whittle themselves down to the ones that we are going to watch. Those 15 to 20 are the best ones to trade. Those are the tightest catalysts and get the most attention - FDA decisions.

You mentioned that a Phase 1 trial might involve ten people while Phase 2 and Phase 3 trials involved more people, and that the stock price at those times usually shows a bigger volatility. I know there is no real number you can tag to what happens at each clinical trial phase announcement, such as "favorable Phase 1 trials can jump a stock 10%, Phase 2 trial results can cause 30% price increases, Phase 3 positive results usually lead to 50% gains" and so on, but are there any tendencies you've noticed along these lines? In particular, I'm very interested in finding out what usually happens pricewise with positive FDA announcements.

It's hard to give a number for these things because it's so dependent on the specifics such as what the drug is trying to treat and how good the data is. Phase 1's may not get a lot of price bump because it's such a small sample size. Phase 2's generally tend to get more volatility and you get a better idea of the drug's future from a Phase 2 trial. If a drug is going to fail it usually does so in Phase 2 because in Phase 1 you can't get a statistical analysis. Basically you are making sure that it's safe and they think it's kind of working in Phase 1. In Phase 2 you get to the point where there are enough people involved in a trial where things can become statistically significant. Phase 3 is almost like "We just want a larger sample size."

Phase 2 can be the most volatile although when you get Phase 3 data that's what they are going to be presenting to the FDA for approval. It's the most important date, but as far as the turning point is concerned … <u>when it comes to what means the most and what can come out of the blue and surprise a lot of times it is Phase 2</u>.

What percentages are the stocks usually moving because of these catalysts?

It's so hard to give that kind of answer because we've seen ones that make 200% moves because the market was not expecting it and it surprised people. There is a lot of guesswork that goes into estimating the drug's potential and the potential price movement for a positive announcement.

The average volatility of the S&P 500 is about 35% a year but the volatility averages about 265% per year for stocks selling for less than a dollar, so I am asking that question because I am trying to get some estimate of the potential price movements for different biotech catalyst dates. I want our members to get a feel for the size of moves involved with this type of trading and want them to understand what part of that move you are trying to capture, such as a typical percentage profit you are trying to make out of a trade.

As far as the percentage to make out of the trade, usually when we are talking about a run-up we are talking anywhere between a 20% and 100% price increase just in the basic move up to the catalyst.

There are a million factors in that. A big factor is how defined the timeline is because a lot of people get excited when they know they can safely trade in and out of the position because of the defined catalyst date, which just brings more attention to the stock. Then it tends to run up more because people aren't in the dark. When somebody says "second quarter data" this can be any time within a three-month period, but if they say "end of April" then a lot of people are going to get in and play the stock because they know that if they get out of the stock in mid-April they should be okay.

In other words, a lot of people feel that they have an exact date with a FDA catalyst, and you are saying they will then get into the stock three or four months ahead of that time. They will just play it, knowing it might go up 20% or 100% so they are just playing for a certain percentage of that.

Exactly.

Because there are no real fundamentals they can depend on are they using technical analysis to know when to *exactly* get in?

That's the thing, with biotechs it's nearly impossible to trade fundamentals because most of these small cap biotech companies just lose money all the time and have zero sales. This is all so speculative. Fundamentals with these companies just don't really work.

Technical analysis can help in locating where the 50-day moving average is and seeing if it's kind of gliding along but holding support when it's two or three months out. If so it's probably a good time when you can enter a trade. One of the things I will do is that I will come in on those areas of support early, and if it wants to break down out of that support area then I can stop out and later get back in.

In other words, you are usually using support and resistance to trade?

Yes, very basically yes.

Okay, you know there is going to be an announcement about a drug and it's going to be on this exact date given by the FDA. You therefore have three or four months to trade the stock before this catalyst appears. You use some type of analysis to get in, namely some rudimentary charting support analysis, or you just get in blindly. You have got to get out before the catalyst date, which makes perfect sense. The question is when *exactly* do you get out of the trade? How do you decide to exit the trade and many days do you usually get out before the catalyst?

With a FDA catalyst where you have the date you are relatively safe up to about a week before the catalyst. I generally recommend scaling out of a position. Maybe two weeks before the catalyst you should might take a quarter off and then maybe start peeling back every few days.

It isn't a rush to the exit. You don't want it to be a rush to the exit, but at times it will really heat up the actual catalyst week because then everybody is talking about it and expecting it. Most everyone is very thankful that the FDA generally sticks to the timeline it sets. They can come out early, they can delay it and be late, but they generally stick to the exact day that they say that they will issue a decision. Just so that I don't get caught a couple of days early I generally recommend exiting about a week before the catalyst.

Let's backtrack a bit. You basically started trading with roughly $2,480 and Profit.ly shows you have made over $500,000 by trading. Was the bulk of these trading profits from biotech stocks?

The very beginning was just a small trade in Bank of America stock, but the vast majority of that amount was due to biotech stocks. That wasn't made in a few trades. I am not looking to get rich overnight or to swing a home run every time. I would like to get up there and make 20-30% in a trade and be able to roll to the next catalyst. You need a basket of stocks to do that with. It's hard for me to say how many trades that was in general, but I would imagine that was over several years. I wasn't over-trading or day trading ten stocks a day.

I am trying to figure out why are you successful in this niche and why other people are not successful in this niche. Before we get into your actual trading rules and style, what do you think it is that you absolutely must do to be successful in this niche?

This goes along closely with my trading rules and is just a different way of saying things. The reason why <u>I think most people fail in biotech is because they fall in love with the stocks</u>. <u>They put too much of the portfolio in one position. They believe that a stock is going to make them rich, they put their blinders on to any risks or any problems, and they get greedy</u>. They think, "Wow, it's gone up this much, but if I hold it through the upcoming catalyst I can make even more. I'm reading the Yahoo message boards and they are saying it's going to go up ten times on a FDA approval, man, imagine how much money that is."

I look at it more as an analyst in the sense of, "Okay, this has a catalyst, it's running up, let's take the risk off, and let's move on to the next trade." I will just continually roll and roll and roll positions over while I see so many people falling in love with a company's story and end up blowing up their portfolio when the clinical trial later fails, the FDA gives a surprise decision, or some information comes out about the company that they didn't expect. They blow up their account and then say, "Biotech is too risky and I never want to trade it again."

How much of your portfolio will you usually risk on any trade?

I hope people have a retirement portfolio that they can trade with. I know that saying I will put 10-20% of my portfolio into a biotech stock may seem extremely risky for some people, but I will do that because I am going to trade it with what I feel is minimal risk in the sense that I know when to get in, I know what to expect, and I know when to get out. So let's say 15%.

Do you have a hard stop loss or mental stop loss for your trades, or none at all?

Usually I will have a mental stop loss. <u>I don't hard stop anything because with biotech misunderstood news can come out and shake people out of their positions but the stocks can still close green after a drop of 10%</u>. There is definitely some volatility in biotech stocks. Therefore I don't use a hard stop. Usually that ends up burning people with biotech because an initial reaction is panic, then people will figure out what's happening, and then there is some bounce. A mental stop I will put at 10%, but I will definitely have to analyze why the trade isn't working before I will just write it off.

Are you looking for a general percentage gain when you exit a profitable trade or are you using a general heuristic like “Wow, I just made 20% in two weeks time so let me take profits” or “I already made 50% so let me take profits because that’s exceptional and I don't care about anything else that comes down the line”? Basically, are there any criteria that help you decide when to get out of a winning trade?

Usually it's a time frame. If I buy a stock and all of a sudden it makes a 30% move and we are still a long distance from the catalyst, I think it's smart to take your profits and wait for a pull back and then get back in. However, with catalyst trading overall it's based more on timelines than it is on actual percentages each time.

That's great. Let's now go back to why you think people are not successful with trading biotech catalysts. You said they might fall in love with the stock and might bet too heavily on one position as well. I’m looking for any other biotech trading “don’ts” to warn people. Are there any other things that potential catalyst traders should be warned against doing?

One part of the “do not do” list, and something people tend to overlook, is ignoring a company’s history. I know it's hard to do fundamental analysis with biotechs, but there are a lot of junk biotech stocks that just roll over and over again and they burn shareholders. Management is basically trying to just come up with crap to keep their jobs and to keep churning out a product, so <u>it's very important that traders look at a biotech company’s history, how long it's been around, how many drugs have failed and so on to really get an idea of the company</u>.

Generally what happens is that the better the quality biotech out there, the better the run-up is going to be. That's why there are so many different factors with each run-up that have to be considered. You can have a company that has a long history of failure where they sometimes just acquire some other drug - some other no name drug - and also try to push it through the approval process. There are plenty of junk biotechs that play the same games over and over. Their run-ups tend to not exist and they just burn through shareholders.

That sounds like the behavior of penny stock pumpers and dumpers. Does anybody rate these companies so that you can avoid those in particular?

What's difficult about that is that small company biotechs in general just have a bad rap. A lot of people will just consider any small company biotech to be junk or to be a pump and dump stock. It's difficult to rate those. There are definitely certain stocks that I won't trade. Their history is the reason why certain ones aren’t moving very much.

There are key types of catalysts that will really get a stock moving. Not every FDA decision is equal. You can be talking about a FDA decision for a drug where there is already a good drug on the market and this is just like a “me, too” inferior product, or you can be talking about some new cancer immunotherapy that is the hottest thing around and it's just going to go gangbusters on a FDA decision. Not knowing the details or the science (because I am definitely not that kind of guy), but understanding what area of the market they are trying to penetrate and how hot that sector is will influence whether or not it's really going to get some momentum and make a difference on position size, etcetera.

In terms of the announcements, someone can grade these and say this is a "me, too" drug application or this is a "hot area" drug that will probably move higher because of the uniqueness. Are there any other categories that you can use to grade the drugs or catalysts?

A pretty good example of that is, for example, when we had all this Ebola stuff going on a while ago. Every junk bio tech came out of the blue and said, "We are working on a vaccine for Ebola" or we're starting to investigate by putting together a clinical trial, and then the stocks would go through the roof like a pump and dump, and then they would drop and pull back down. I guess day traders were really making big money of the Ebola plays awhile back but then that kind of disappeared.

As far as there being a general grading criteria for these biotech catalyst plays, we don't necessarily do that. The ones that we trade and put out to our subscribers are ones that we feel are going to move so we automatically filter those out.

Our members now understand what people should not do, but on the other hand to what factors do you attribute your success in this niche? There are people doing the same thing you are doing, which is trading catalysts in the biotech space, but you guys are more successful, so the question is why?

Number one is discipline - just doing the opposite of what the people who are failing are doing and that's not falling love with the stock.

If it's not working, if our thesis is not validated by the trading action around it then cut losses quickly and don't ride something, do not double down, do not all of a sudden try to justify why it should be going up or in our own minds start thinking "Oh no, no just double down, double down." You must have good risk management in that sense.

I think one thing we do really well is that we have a skill of identifying areas of the market or the companies that have *catalysts of the right niche*. They have the right key words, the hot words that are out there in the marketplace that will attract attention. We are good at locating those stocks before they have already made a big move.

The key is getting into these ones while nobody is talking about them but recognizing that the potential of that particular drug is huge, the potential market is huge, and similar companies have had similar run ups of such-and-such an amount.

You also have to somewhat look at company fundamentals. I know I was kind of bashing fundamentals earlier because biotechs are so bad, but you are going to get hurt if you take a large position just based on the timeline in a biotech company that has no money and is running out of cash quickly. That's because they are going to raise more capital.

One of the best opportunities to enter into a run-up for biotechs is on a raise a few months before a catalyst, so hold off on taking some positions when you realize this company is going to need to raise money. Nobody is really talking about them right now, the share price is low, they are going to have to dip down, the share price is going to get hit and that could provide an excellent entry free and clear of any of that overhead going into the catalyst itself.

Some fundamental analysis about the company definitely comes into play. One of the first things that I look at is the company’s cash position. When we have a few months, six months or so before a catalyst I’m always examining the company’s cash position. I actually want these companies to raise cash because that clears out their overhead, so I will be watching and have an alert set. I want to be saying to myself, “Excellent. This company raised cash, they have a catalyst two months out so this is a good time to initiate the position” because now we are basically in a dead zone for news. That's what we want. I don't want any surprises between when I take a position and when I close out a position before the catalyst. When it comes to the biotech stuff the hype will start to spin and create around itself. Everybody will want to get in.

In other words there are 300 small cap biotech companies of interest, you select the ones that are going to have a FDA decision or announce their Phase 2 or Phase 3 results or whatever, but in addition to selecting those that have a predetermined special date (the “catalyst”) you also sort of grade those stocks in terms of their drug’s potential hotness. Out of a thousand potential trades in a year, you are whittling it down to a lower amount of trades based on all these filters.

Exactly. You say that a lot better than I do.

Another key criteria is when a company raises money. A “raise” is when they are raising cash by selling out shares. When they raise money it means that they did an offering, which is a public offering or a direct offering. This removes an overhead burden.

What can be really frustrating is if you take a position in a run-up, the stocks starts to act well and the company says, “Okay, we are running out of cash, we need to raise some money” and they do an offering. This is extremely common in biotech.

Remember these stocks are not generating any income. They make no money. The only way they make money is by selling shares. If they don't have a partner lined up, if they don't have any kind of cash flow, which most of them don't, the only way they actually can pay their electric bill is by selling shares.

This can happen often so it's very important to realize what the cash position is on a biotech before you take a position in it yourself. You don't want to buy it just before they raise because oftentimes with biotechs - because there is so much risk involved - they have to raise at a discount. So when a company is trading at $8 a share and then they have to raise at $6.50 you don't want to be the guy who just bought at $8 and watch that get hammered when it's something easy to see. If their burn rate is ten million dollars and they have ten million in cash then guess what, they are going to raise money in the next three months.

Where do people find that information on their own? Do they look at an SEC filing?

Yes, that's where I find it. You have to look at SEC filings, which most people don't do. That's part of the due diligence process that we do before we buy a stock for subscribers. I would feel irresponsible if I didn't look at that kind of information before I took a position in a stock. But that's where you find it. You have to dig through a SEC filing. You can get the information off Yahoo but usually they are just referencing the SEC filings so I would rather go there myself.

Let's now get into exact trading rules. What do you do? How do you analyze a situation? How does a stock get on your watch list and what you are actually doing? Please run me through the entire process with all the pieces so that our members really understand how catalyst trading works.

The number one most important thing that defines a trade for me is a *definable legitimate catalyst*. If the stock does not have a catalyst, if a biotech does not have a defined date for a binary event, which means some type of “yes” or “no,” then you should pass on it.

Was the clinical trial successful? Yes or no. Did the FDA give a decision? Was it positive? Yes or no. That's what biotech comes down to – binary events that are catalysts.

If a company does not have any definable catalyst - meaning it is a binary event, it is a yes or no, a clinical trial or a FDA decision and more importantly definable - then one of my rules is that if I don't know when on a calendar I am going to exit a position in a biotech stock then I won't buy it. That’s because “definable” to me means I can measure my level of risk. It means, “Am I going to be able to know when to safely exit without putting my neck out there?” and if I don't have that I am not going to take a position.

For example, there is a stock out there right now and the company has huge data coming up. They reiterated that it will happen in “late April.” I listened to the CEO conference, I read the transcripts of the quarterly conference calls, I listened to the conference presentations and different conferences and she said, “end of April.” This is for a clinical trial.

I want a huge catalyst followed by a definable date. If she said we’ll announce results in “the second quarter” then I wouldn't trade it because of the likelihood of me taking a position now and the data coming out in a month and a week getting into April, which is a risk just too high. I need to know exactly when I am going to exit before I enter into a catalyst position and that is the number one thing I look for when it comes to a trade.

Let’s say today is February 25th. You've got a list in front of you of all these potential catalyst dates. How do you prioritize opportunities to decide which stocks you are going to trade? If you could only do one or two, which ones would they be?

The one that I would select to trade is the biotech that I feel would make the largest move based on the actual catalyst itself. You can have a $2 stock, and sure it's got a FDA decision but it doesn't really mean much when it comes to the company and a positive decision will push it to $2.50 a share. You will get a run up to $2.50 … big deal. That's a 25% move, which is nice but nothing outstanding.

But maybe you've got another biotech stock that is trading at $15 a share and if you just look at the options chain you could see that three months out they are pricing it to be near $30 or $40 a share. That sends off a lot off alarms that the volatility in this stock is huge.

Chances are that because of that huge volatility and a definable catalyst I am going to be able to safely enter and then exit the stock. Also, the likelihood of a high percentage price run-up increases based on the projected move seen in the options chain.

This is great. It's a gem for our members. In other words, if someone wants to be a catalyst trader they don't have to become a medical expert to evaluate a drug's potential or anything like that. Smart people are already pricing all sorts of complicated information into the options, so you can just look at the options chain for various biotechs and see which stocks offer a bigger potential percentage gain than the others and then just focus on those.

Yes, exactly. That's kind of cheating but that's a good secret you can give out because that's huge. I can give a specific example of that right now.

There is a company called Celladon. CLDN is the ticker and you can compare it to BLUE, which is a similar type of stock. BLUE just ran up from $20 to a $100 based on positive data over just like five patients. Basically they may cure sickle cell disease. These are companies that are curing diseases. This is a huge area of the market.

CLDN is employing a similar method to what they use but it's for heart disease and it's a make or break type of clinical trial, but it could be huge. If you look at the options chain for CLDN, it's a $15 stock and right now I guess it's closer to $18. The $30 calls in May, which is only 80 days out, are trading around $5.50 for call. Thirty dollar puts are trading around $17, so basically it's showing that there is massive volatility surrounding this catalyst.

When you have massive volatility you're going to get a lot of hype so you're going to be able to safely predict that a run-up is going to occur. It's going to get hyped because it could be huge.

What's exciting about Celladon (CLDN) is that this is the stock I was referring to when mentioning the conference presentation where the CEO said "end of April." "Late April" is what they put out on the slides in one of their filings. The CEO said, "end of April" so you know it's a pretty safe hold between now and mid-April and if you look at the trading action on the company recently you'll see it's starting its run-up. We bought this company at $16 just a couple days ago and it's closing at $18. The reason is a huge catalyst, tight time frame, and potentially big move. If you put those together you get a good run.

You have all these dates and you can guess who is going to be a big mover just by looking at the options chain and seeing where the volume is pricing the stock. With the options chain you can get an idea of what stocks have the biggest

potential. If you have a way of grading the potential drugs as "hot market" or "me, too" or whatever then that helps as well. Either works but if you can match those two criteria then you have a better chance of saying, "Okay, of these dozens of dates coming up these are the top several that I really want to trade because of the potential."

Yes, and you know that is actually kind of a way to cheat the system in the sense that you don't need to be a scientist to be able to know about the drug particulars. When you start digging into the medical research behind these drugs it becomes overwhelming. Fortunately my partner Mike is a pharmacist so he is great at doing that kind of stuff. I'm great at identifying and researching the stock, but looking at the options chains is a great way of cheating. Not all of the stocks are options tradable but most of them are, which is great.

I'm always trying to protect our members, so I'm trying to find some way to filter down a list of many dates to just a few of the best so that people can test this style of trading with the utmost safety and minimal risk if they want. So now you have a catalyst date and you're interested in a stock, you've done some analysis, you know the options chain looks good, and it's three months ahead of the catalyst. Do you have any particular technical or fundamental rule for getting in, such as a support level or something like that, or is it just that you did all this other research first and then it's just a blind entry sort of thing?

With the timing, say you have three months out. When we're talking timing, you're not in a rush to buy once a catalyst is identified so I like to watch a stock for a while. I like to see it go down, I like to see if it drips down on low volume and whether it holds an area of support, which is what you can look at the moving averages for. You can see, "Okay, it's going to hold there. This looks like a good entry."

I can get a good entry based on moving averages, based on levels of support and then hold the stock. If it decides it wants to break down a little bit - because it could break down for a month or so and then start a run a little bit later - I can stop out if it breaks key levels that it's basically been parked on for awhile.

I'm not trading it as a momentum trade. I'm trying to get in while the volume is low. That's when I want to buy it and I don't want to influence the price just because generally I want to buy it when nobody cares about it. When volume comes in ahead of a catalyst, it's usually coming in to drive the price up because more people are talking about it.

For support levels, are you trying to buy at support or when it goes down through the support like negative through it?

I don't like to buy when it's breaking through support. I want to see it hold support. My stop losses are different the farther I am out from a catalyst. If it's three months out I want to take an initial position in the stock. If it's just not ready and it broke a key level of support and now there's an air space there of 10% where it could drop, I just want to cut my loss. I can get back in next week or in two weeks.

I almost never average down. I usually just cut the trade if it's not working, which sometimes happens because I'm in too early. If it drops maybe I let it settle out, find some support area, show me that it's got some support and then I'll take a position into it.

For support are you also using chart patterns or are you just using moving averages?

Generally I like to use a 50-day moving average. That's just my personal preference to see if the price will hold, but overall I like to look at just the chart pattern. The chart doesn't have to have the 50-day or the 200-day moving average. You just have to see on the chart what areas previously have acted as support in the past.

Usually with those areas, especially with biotech, it seems like you could find support but when there's no catalyst there's no reason to buy these companies. Generally they will bottom out in an area and that area kind of acts as support when really only the long term holders are in. When the momentum traders come in then that's when you know you get the price moving up.

Let's say somebody gives me a list of fifty tickers. I'll go in and the first thing I'll do is see if there are any catalyst dates coming up for any of them and I'll make a calendar. I'll mark any catalyst dates as a Phase 1, Phase 2, or Phase 3 announcement or FDA decision. For those catalysts that are within a three to four month window coming up, then I'll see what the options chain shows because I don't know anything about pharmaceutical medicines and their potential. In general I'll assume that the larger the options chain volatility the larger the potential winner, so I'll rank them by the biggest potential winners, then drop the bottom ones and just concentrate on the top tier. Now I'll examine which stocks are riding near their support levels and generally look for safe entry points for the trade. Is that a reasonable description of how you might get into a biotech catalyst play?

Yes, that's reasonable if I'm just looking at a batch of stocks that are all almost equal. But as far as the best trades they usually come up when companies release some kind of information whether it's at a conference or whether it's a quarterly update, and the key is that timeline. So <u>a company will immediately move to the top of my list if they have a catalyst with a tight timeline</u>. What you said will work if I had fifty FDA decisions that were all basically created equal.

But you know those ones are fewer and farther between than the clinical plays so somewhere in those criteria is how much can we narrow down this catalyst to safely trade it. I think that's part of the big reason why my account is growing or grew in the way that it did, which is because <u>I didn't hit these big losses that a lot of traders suffer</u>, especially biotech traders. A lot of their problem is that they took huge hits because they held too late or they held into an actual catalyst itself.

The criteria of being definable within a few weeks period – "can I narrow down this catalyst to when it's actually going to happen" - that immediately bumps things to the top of the list. It doesn't matter what kind of catalyst it is. If people have a date to trade around then so many catalyst traders out there are like, "I can hold up until this day (or the day before)" and generally that buying will start.

It seems you're taking almost all the trades with definable dates without any special selectivity to it. Just as long as you have that catalyst date you'll trade it?

Right. Obviously there are ones that I'll pounce on because they can be huge like this CLDN trade. You know if a company comes out and they say, "Hey, we've got Phase 3 data that nobody has seen yet and we're going to be presenting it at this conference in two weeks" then I'll buy it. I'll buy it because everybody else is going to be buying it whether or not it's going to be a huge mover or not. That depends on how hot the market is and right now it's really hot so anything with a date is going to move.

So you are just going to get in but see if you can get it near a support level because that's the cheapest, lowest risk area?

Right, exactly. And there are different kinds of plays because some of the biotech stocks out there - like with a FDA decision where you get the date either six months or ten months in advance – will have news coming out and maybe the stock jumps 5 or 10 percent, especially when it has a FDA date. That's when you know the application was accepted for them to review for approval. You might get a move, but then you've got months and months of no news and it slides back down.

With other companies you'll be like, "Okay, they said they were going to have data in the second quarter, but now they just came out and said they're going to be presenting it in late April." So sometimes you can't sit back and wait to time support with a position. Sometimes you get the news when everybody else does and you have to recognize immediately when you see it, "Oh man, they just moved this from a very broad catalyst to a very defined catalyst. It's going to start to move and the time period between now and then is short so we need to buy it now."

Since there are hundreds of these companies, where is the information pipeline that aggregates all these together so that you can follow hundreds of different announcements?

That's one of the things that we offer at BioRunUp.com, which is where we have our tracking database. We call it our *catalyst calendar*. You can download it or you can view it within the site. Within the categories that are all sortable are the catalyst date, the market cap of the company, and all sorts of other criteria.

But what are you doing to update this information so that you are on top of things and it stays timely? Are you watching dozens of websites?

I'm watching that everyday as new things come out. I have a paid news service called NewsEdge (NewsEdge.com) that I use. News comes in every morning. I see it as it happens every time a biotech firm puts out either a press release or an SEC filing. Then I pop it open and scan it real fast. I know what to look for and part of that is whether they are going to be presenting data at a certain time, and if so then I start to dig a little bit more. That's step one. Every biotech press release that comes out will literally pop up on my screen. That's part of what subscribers like is that what we do is we're watching those. I know what to look for so they don't have to.

I think my partner, Mike, runs a Google news scan or something like that. Every morning he goes through reading all the news and then he hand enters everything into the database, but he filters out all the crap that isn't going to make a difference. He is not saying, “I'm only going to do things for what I'm going to trade.” He will filter the news such as, “Okay, this is an actual catalyst.” Maybe it is a one-month or maybe it's a six-month timeline, but if it's a catalyst then he'll input it into the database.

Now I understand how you're entering the trade but later you must exit the trade. Do you just exit one week or two weeks ahead of the catalyst? What are the rules?

For a FDA catalyst you can hold closer to the actual date because you have that date. It is very rare that they break it. It can happen, they have done it, but it's pretty rare so generally, for those catalysts where it's a FDA decision within a week you're safe.

You know when the stock makes a huge move. All of a sudden it's pushing up, all the momentum is there, it breaks out and it pushes up and it's two weeks ahead of time and it's made a huge gain. I've got no problems with taking my profit. I'm not set on a week. The momentum is there, the buyers are coming in instead of everybody going, “Oh crap, this is selling off, I need to take my profits now.” You don't want to ever have to sell in a panic. You want to sell when it's advantageous for you.

Maybe you'll miss a continued run-up but if the gains are there and the momentum is there and the volume is there, and you've got a good profits then take half off, take a quarter off, take it all off, pay yourself along the way.

I understand how you find the firms, how you know when to get in the trades, and how you know when to get out. Do you ever do anything on the short side?

Not in this market. You get blown up if you go on the short side in biotech. It's insane right now but we have in the past and generally because we understand the news. The shorting has usually been news based. Shorting can come into play after post catalyst, and selling the news is a big deal.

We don't do long term fundamental shorting in biotech. It's not worth wrapping ourselves up in that. However, if a company comes out and they've confused the retail market with the way they've worded their press release and the stock has made a big gain when it shouldn’t have then we will short it. It really is market dependent so right now you will get blown up if you short biotech so we're not shorting at this moment, but we will at times. We have and we will. It's a good way to make money.

One of the trends that we didn't really talk about is on FDA decisions. For a small cap biotech, when it gets a FDA approval one of the biggest money-makers that we've had consistently is what we call the run-down. You know there's a biotech run-up in price. Well, there's also a run-down.

Basically you've got all these traders in for a catalyst - for a FDA decision. You've got this catalyst and it comes and the drug gets an approval. Well, the majority of the traders that are going to stick in for an approval were obviously expecting it to get approved. What happens is, especially on retail driven trades - we're not talking Pfizer, we're not talking about the big boys, we're talking about just the small cap biotech that's got all the traders cluttered in there - you've got a FDA decision and everybody is hyped up. These people think they're going to make 200% on their money, it's going to double, it's going to triple, and then the stock doesn't even move and it starts to go down because there are no buyers coming in. Everybody is already in the stock that wanted in on it. You've got all these people that didn't take their profit before the FDA decision thinking they were going to double their money, and now all of a sudden … uh oh, it's not even going up. Then it starts to go down, and then all of them start to sell it at once.

The vast majority of small cap biotechs close red the day of their FDA approval, which sounds totally crazy but until you've experienced it you wouldn't believe it. You don't know how many people I know that have had that moment where it's like, “Oh my gosh. I took all this risk going into the decision. It was what I expected, what I hoped for, and then I lost money” or the stock closed red on the day. Generally you've got this run-up where all this retail trading is piling in and then you've got this run-down where traders are thinking, “Oh man, my money didn't double” and then the stock just bleeds for a period of time. We will make money with shorting itself on an actual FDA approval. There's generally some kind of spike and then it sells off.

You can trade that with options. We have an options guy who has made a fortune selling out-of –the-money calls into FDA decisions. You're going to make all your money, you're going to make one hundred percent on a rejection because the calls aren't going to hit. On an approval usually it doesn't go up to where people want and then it fades, and then he collects all the money anyway.

He is a smart guy. He's actually a chemist for a midcap biotech company. He knows, “Okay here's the company and they've given us their projected sales, what they hope to make, and we can look at their fully diluted share count and what the market cap is.” Most of the times these things run up to well over what fair value is on an actual approval with full what-the-company-expects-to-sell. That's how out of control these things get and when that reality hits they fade.

You also have this gap. You've got a FDA decision where they say, “Yes, you can sell your drug,” and now that they've got the okay they're building up their sales force and marketing. They're going out to doctors, they're trying to sell the drug, and there's usually a good six months between a FDA decision and when we're going to start to see sales numbers coming in after the launch. Those six months of dead air in small cap biotech is a lifetime. Nobody wants to wait that long. You've got this dead space. Well now nothing is going to happen and people just sell the news and it fades. It's the most classic “sell the news” scenario that there is and it happens almost every single time. Shorting that is another way to make big money and I've made that a lot.

Does he or do you sell the options the day of the announcement?

Well, usually the volatility is in there before the announcement. He's better at this than I am, but I have followed him in on a lot of these trades. He'll sell some while the huge premium is there and then the day of the announcement his thesis is validated that this thing isn't going to the moon. And then quickly … say it's at $10 and it moves to $11. If he was selling $14 calls before then now he's like, “Alright, I can safely sell $12 or $13 calls” and they will safely expire within a couple of weeks.

We now know how you analyze a biotech situation, we know your basic trading rules, we know the general chart pattern of support you're looking for, we know the catalyst you're looking for. We sort of have a list of do's and don'ts for this type of trading. The don'ts are: don't fall in love with the stock and make sure the company doesn't need to raise money. We have the do's: focus on the definable dates and don't hold to the catalyst dates but get out ahead of time. The perfect opportunity is one of these grade A drugs with a great catalyst as well as options chain volatility and that puts the stock on the watch list. Then you just trade it for a chunk of the move. You're not trying trade it to the moon. You're basically doing a time trade and you just want a gain rather than super home run because you're looking at this like a business where there are many other trades afterwards.

Exactly.

If that's the case then, who succeeds the most in terms of personality for this type of trading? I mean there are a lot of guys who want to do momentum trading, day trading, long term investing, contrarian trading, and so on. So that our members might try to see if they have a psychological fit with this type of trading, have you noticed any common threads about the personalities of the traders that succeed with biotech?

The trend seems to be those who do well with swing trading, not necessarily momentum watching every tic because you can get overwhelmed with just watching it day-to-day, but the general pattern needs to be there of the run-up. We are talking about a month or two so we're talking about swing traders, definitely not day trader types.

In my opinion those who seem to do the best are the ones who can take emotion out of it, the ones who can analyze a stock and not get wrapped up in the story, not get wrapped up in the emotion of greed, but those who can step back and analyze it, trade it, and move on to the next one.

If somebody wanted to master catalyst trading, how much time would they have to spend at this? Is this a full time job where they have to sit in front of the computer all day?

To be honest, the more time you put into something the better. That's not what people want to hear. They want to hear that someone else, like us, does all the work but the more time you put into it, the better that you will get at it. However, if you can be selective and narrow it down just to the specific catalyst that you want, you don't have to sit in front of the computer all day. You can just have a watch list.

You can buy within general time frames like two to three months out. You don't need somebody telling you, "Okay, this is the moment, buy right now. You have to get in now." You've got a long period of time so if you're able to sit back and to process the information then you don't need to be in front of your computer all day.

A lot of these stocks have experienced run-ups already by the time a trader hears about them or finds them. What should traders do when they see a biotech has already run up an appreciable amount but there's still three months to go before the catalyst? Should they be waiting for the stock to drop down and touch a

support before they enter the trade?

That's why I like to use the 50-day moving average. There's nothing magical about it but it's just a reference point. It's hard to not enter into a position after the stock has already made a move when there's plenty of time and you are three months out. <u>Chances are that it has made a move for a reason and it's going to continue to make that kind of move</u>.

I always like to look at near term support. I'll pull up the one-hour chart and see how it's been trading for the last couple of weeks, what areas it has been holding, what it bounced off of. Those types of things.

The run-up generally accelerates close to the catalyst. I hate chasing stocks. If I see that it's gone up 50% in the last three months and it's three months to go before the catalyst, I hate that. But generally you don't want biotechs that are trading like crap going into a catalyst because those probably aren't going to run up very much.

These are just momentum plays and CLDN is a perfect example. When that stock BLUE went from $30 to a $100 or whatever then because CLDN is in a similar space the stock went from $12 to $20. Then it dipped back down to $16. It's held that level of $16 and now it's starting to make its move as it gets into its catalyst, so you know you can't always pick the bottoms. You have to trust in the catalyst and the momentum that's going to come with it.

The biotech catalyst trader doesn't have to be a day trader?

No.

How do you think this sector will do during a bear market?

There is a lot of speculative money in biotech because this area is not like oil where oil is just down. Biotech as a sector may pull back but you always have specific catalyst plays that are on the brink of becoming huge. Those are going to make money whether or not the market is hot. It is not immune to market swings. It is speculative but you just have to be a more selective and tighter with your timeline. You cannot just throw money around and expect profits.

In other words you'd expect this time of trading to do well in a bear market?
Yeah, it would be tighter and instead of having that basket of like twenty stocks where you are thinking, "This one kinda has a catalyst and I can trade around it" you might have to be like "I just need the ones that are a big deal." You may have to narrow your basket to five or three stocks – pick the best ones. The turds aren't going to float just because everything else is going up. You just have to be more selective, but they'll still move. Obviously in a full market meltdown everything is going to get hit but specifically related to catalysts they're going to move because it's a big deal.

You mentioned websites doing some hard work for you, for instance NewsEdge, Google News, etcetera. Are there any other information sources out there that potential biotech traders should know about if they really want to do this on their own?

I personally love looking at SEC filings. I think you can link to those from Yahoo but reading the last quarterly filing, the annual 10K, any of the recent 8Ks, make sure to take note of the company's financial position, the disclaimers that come in on the 10K filings because a lot of times they'll talk about other companies that are coming with similar drugs, maybe lawsuits they have, etc. Those are the areas to pay attention to.

You need a news source to basically get the tickers for the overall sector. From there you need news you can trade off of, which is either in the form of press releases or going through conference calls and quarterly filings, etc.

That's where you would be if you started from scratch. You would have to come up with the list of every small cap biotech and basically search for news on every single one of them and read their filings to try to find what the catalyst is. The only time you're going to hear it is when everybody else is talking about it, and that's too late. That’s what we provide.

What's the most common question people ask you all the time, and what is something that really itches you? Something you really want people to know that that they don't really get, and it irks you or presses on your mind?

It always irks me when people say, “Tell me what to buy so I can double my money by tomorrow” or by next week, or in the next month, or within a certain time of period. There are risks and you can lose money. If it was absolutely that easy then everybody would be doing it.

It does take a little bit of work and one of the things that I always like to see people do is to learn paper trading. I always recommend that if people are new to trading that they do some kind of paper trading. When it's paper trading in reality it's not real money so you're not going to psychologically trade the same way that you do with real money. But take into account what we have talked about and why we're talking about it in the sense that you can't trust emotion to take a hold of a trade, and greed especially.

Once you allow those things to creep in and you don't do your analytical work and you don't think about things - not necessarily scientifically but at least methodically - you're going to end up getting hurt and it's not going to be pretty with the market and with biotech in particular.

There are always variables and this is something I say all the time, but in small cap biotech there is just no reason to expose yourself to the risk of holding into a catalyst. There are so many variables that come into play. A drug can be perfect, but then the FDA can come back and say, “We inspected the facility where you were making the drug and the minimum wage worker there was not wearing their hairnet and that's a violation,” and now you have to reapply for something. I mean there are just so many variables that are beyond your control. Never hold into a catalyst, ever.

That it seems so simple but you would not believe how many people end up saying, “Oh man, I broke that rule, you know, and now I lost 50% (or whatever).” Just never hold into a catalyst.

For biotech trading or for trading in general, are there any books our members might want to read from Amazon.com that you think can help people?

It's hard to tag a particular book because a lot of the ones that deal with biotech specifically are *way too scientific* and you know the sector itself is changing every six months so it's hard to do that. That's why I tend to focus on fundamental stuff like trading psychology because even the fundamentals are different in biotech like we've said.

The biotech companies don't make any money so it's hard to trade on fundamentals. Usually charting will go along with where to maybe pick an entry when you've got time. We're not technical traders, but other than that technical analysis may help with selecting an entry and maybe seeing where it might break out, but the psychology behind it is what I think really drives it.

Anything else in terms of advice, words of wisdom, or do's and don'ts you want to pass onto people?

I think trading psychology is extremely interesting because it helps you understand yourself, make yourself a better trader, and really understand why stocks are moving the way that they are especially in a very emotional sector like biotech. I like learning about that kind of thing.

That's just a personal thing, but as far as rules are concerned another rule that I like is this: <u>Don't come up with what you want to happen and then look for a million reasons from other people to support why you think that.</u> For instance, people want a stock to go way up. This is part of falling in love with stock but a little bit different. They think, "This is going to get FDA approval, I know it" and then they go to the Yahoo message boards and all they do is read a bunch of other people who are saying the same thing. Then they start to believe it themselves and all they are doing is coming up with an idea that they want to happen, and then they try to validate it in their own mind from outside sources.

Yeah, they try to justify a trade rather than unemotionally evaluate the facts.

Exactly, and with biotech that is so huge. When people do that they get burned and I see it all the time.

Can you talk about how successful you've been at this in terms of a trading record?

I started with $2,480 in March of 2009, it dipped to $2,265 in April of 2009, and then grew to around $580,000 within five years. But a big move from $2,480 to nearly $285,000 was within a two-year period, so the number depends on how you want to stretch it out. Over 5 years, there were 593 trades according to my Profit.ly record. That's about a hundred trades a year minimum.

Is your average trade holding period about a week or month?

I try to hold trades for two to six weeks generally and I'm usually going for a 20-30% move. Obviously, if something is going to catch momentum then I'm going to hold it.

You don't need a lot of money to trade these because most of these stocks are under $10 a share, correct?

Right, under $10 and you know what, it's funny but those are the ones historically that have made the biggest moves. People like buying those stocks under $10. The market cap can be the same for a stock priced at $25 a share and nobody wants to touch it. Everybody wants the $2.50 stock. It's just the way it is.

Have you found a broker that is really good for these because the biotech stocks are low volume, low price? Are you using ThinkorSwim or some other special trading platform?

I use ThinkorSwim.com personally. I also use 3 brokers. I use TDAmeritrade.com to trade these longer swing positions out of my IRA so I don't pay taxes on all this. I use OptionsHouse.com for options generally because of their pricing. I'm not looking to do a lot of research, which is why some of the other options brokers are more expensive. I just want to execute an order. Then I use InteractiveBrokers.com for quick either day trade positions, or usually for shorting. Basically you can say that I have Interactive Brokers for shorting, Options House for options, and then Ameritrade for long base trades.

If somebody wants to get into this type of trading, can you describe how people can get in touch with you guys for more information or to gain access to your catalyst database service.

We understand that it is a lot of work to narrow down the list of the entire small cap biotech sector to a list of the relatively few stocks we think are actually worth trading. There may be other gains or surprise gains with surprise news, etc. but identifying the ones that we can successfully and continually trade without risking profits is the goal of our BioRunUp.com service that we provide. We provide that database for people who want to download it, look for their own diamonds in the rough, hidden gems, or maybe somebody has got a special interest or experience with cancer medication or whatever. They want to narrow it down to trading certain areas.

We provide that with BioRunUp.com but what I think the guidance that we really provide and asset that we do is not only the real time trading of the companies that we're buying and why and posting that in real time for subscribers, but also the watch list of what we're watching and positions that we're considering taking and the timing on those.

There are other services, plenty of other services that I know where they'll just come up with a ticker out of the blue and then everybody is rushing to buy the stock. Generally what we try to do is not be like that. Some of these catalysts come up immediately with news, but a lot of these catalysts we know about months ahead of time. We talk about them in webinars and then in our watch list: "Okay, you know we are coming up on this FDA decision that's in May. Nobody is really talking about it right now but you might want to watch these areas on the chart, and start to take a position in it because it is going to heat up."

We try to provide a lot of that filtering down to the catalysts that are important and cut through a lot of the BS, the hype, and the greediness that a lot of retail traders seem to fall into in order to narrow down and clear the air for our subscribers as to what we think are the list of stocks that have the potential to make big moves into their catalyst.

In other words, you run a website called BioRunUp.com where you come up with a short list of biotech companies with their catalysts and dates and hold webinars on various biotech opportunities. Is that correct?

Yes, and also articles about specific stocks. You can also follow our trades. My partner Mike has more positions than me. He's generally more active than I am. He'll trade in and out of positions quicker. I tend to hold them a little bit longer. People love to follow what I do because of that.

The people that get attracted to trading biotech the way that we do are not day traders. Some of the other guys I interact with who run day trading services don't even know what the ticker is. They're trading the ticker and have no idea of the catalyst that powers why it's moving. They're just looking at whatever. Unless you do that full time it's hard to do that.

What attracts people to us is that there are companies that are making huge moves and traders don't have to watch it everyday. With these things you can buy a position today. Obviously it's better to watch it a lot, but you can close your eyes for a period of time and then have an idea of around the week when you want to close the position out. For people with full time jobs and lives and families and stuff that tends to work better for them.

Thanks for talking with us Mark. For those who have never investigated the biotech field or heard of "catalyst trading" this has been wonderful information. As you have explained many times, it is a speculative type of momentum or swing trading, for a limited period, before a definable date event whose potential outcome is unknown. I'm sure many will check out your catalyst service that finds these catalyst dates and wish you the best.