



## The Next Million-Dollar Penny Stock

<http://www.fool.com/investing/small-cap/2009/05/27/the-next-million-dollar-penny-stock.aspx>

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Penny stocks can [make you rich](#). Need proof? Every one of these multibaggers was, at one time, a penny stock:

Company	Recent Price	CAPS Stars (5 Max)	Five-Year Return
<b>Ebix</b> (Nasdaq: <a href="#">EBIX</a> )	\$30.11	*****	595%
<b>Arena Resources</b> (NYSE: <a href="#">ARD</a> )	\$34.09	****	763%
<b>Terra Industries</b> (NYSE: <a href="#">TRA</a> )	\$29.90	****	532%
<b>Hansen Natural</b>	\$40.37	***	1,215%
<b>STEC</b> (Nasdaq: <a href="#">STEC</a> )	\$17.00	***	352%

Sources: Motley Fool CAPS, Yahoo! Finance.

The promise of outrageous returns has periodically made even the world's best stock pickers penny stock investors. Peter Lynch [has](#) enjoyed the stock market's super-cheap seats in the past, and still does on occasion. The Royce Low-Priced Stock fund [has beaten the market for a decade](#) by betting on stocks trading near or below \$10 a share, including **Pacific Sunwear** (Nasdaq: [PSUN](#)).

Even the All-Stars in our 130,000-plus [Motley Fool CAPS](#) community take to penny stocks. More than a few have been [richly rewarded](#).

### Pennies from heaven

So why *not* invest in penny stocks? Well, the warning the SEC issued about them provides one excellent reason to steer clear. But what if we take the agency's definition literally, and limit our choices to stocks trading between \$1.50 and \$5 a share? And what if we further seek only four- and five-star stocks with a market cap between \$250 million and \$2 billion? Surely our [CAPS screener](#) would return some winners, right?

This week when I [ran that screen](#), 53 stocks made the cut -- not including [our last topper](#), **Advance America**, **Cash Advance Centers**.

My favorite penny stock this week deals in unsticking black gold from the fields and the seas, **Parker Drilling** (NYSE: [PKD](#)). Our CAPS community mostly likes what it sees:

Metric	<a href="#">Parker Drilling</a>
CAPS stars (5 max)	****

Total ratings	667
Percent Bulls	97.3%
Percent Bears	2.7%
Bullish pitches	93 out of 95

Data current as of May 26, 2009.

On the whole, CAPS investors and those who've bet on the likes of **Chevron** and **ExxonMobil** (NYSE: [XOM](#)) expect oil to rally further, and they believe that Parker Drilling will benefit from the rising tide.

I'm starting to build a basket of oil service companies. They've been pretty well battered and I expect we aren't going back to the days of cheap energy. I'm being careful to focus on companies with relatively strong balance sheets that aren't apt to trip debt covenants if things continue slow for awhile. Parker is a small pure play on drilling.

So [wrote](#) my Foolish colleague, Stan Huber, known in these digital parts as [TMFPlatoish](#), near the beginning of the month. Continuing:

It also has a drilling equipment rental arm that is a profitable business. The company has been around since the 30's and still has a Parker as CEO. It understands the cyclical nature of its business. Debt load looks manageable and it is trading at less than half of book value. It should outperform the market.

But that's my take. I'm more interested to know what you think. Would *you* buy Parker Drilling at today's prices? Let us know by [signing up](#) for CAPS today. It's 100% free to participate.

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