

Dudley Pierce Baker

# The Stock Warrant Handbook



*Your Personal Guide to  
Trading Stock Warrants*

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*“Warrants are frequently thought to be tools of the speculator. But this is nonsense, for one can buy warrants in companies of quality and one may hold the warrants for a long period of time. There is no reason why a person who considers himself to be a conservative investor should not consider warrants as a viable means to his investment aims...”*

- (Mayo, 1974)

# Foreword

## (2017)

Welcome to my world of stock warrants.

The potential gains to be derived by trading or investing in stock warrants can be enormous, 500%, 1000% and much more.

My fascination with stock warrants goes back to the late 1970s and continues strong today to educate investors on the outstanding benefits available with warrants.

I have had the opportunity on numerous occasions to sit down with Frank Holmes and his entire team through the last 10 years to discuss my favorite subject and always appreciate their opinions and suggested improvements to my website.

For those who do not know, Frank E. Holmes is chief executive and chief investment officer at U.S. Global Investors, which specializes in natural resources and emerging markets investing. Mr. Holmes is a frequent guest on CNBC.

More recently I am pleased to see others in the business, namely Marin Katusa of KatusaResearch.com and the late Larry Edelson of WeissResearch.com, discussing stock warrants.

Through the years, I have had conversations with Rick Rule (SprottGlobal.com) and Doug Casey (CaseyResearch.com) and Martin Weiss (WeissResearch.com) and many others at investment conferences, in New York, San Francisco, Vancouver and Toronto.

If you are interested in interviewing me to discuss stock warrants and the opportunities they can bring to your readers and/or listeners, just contact me through my website.

Now let's get you started learning about stock warrants with some basic information and 'rules of the road' which I present to you in this guide.

Profitable investing to everyone,

Dudley Pierce Baker

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## What Is a Warrant?

Several years ago in New York at a Hard Assets Investment Conference, a newsletter writer with over 30 years in the business, asked me, “Dudley, what is a stock warrant?”

After regaining my composure, I responded just like I am addressing you, by defining a warrant and why you should be interested.

By definition, a warrant is a security, issued by a company, giving the holder the right, but not the obligation, to acquire the underlying shares, at a specific price and expiring on a specific date in the future.

This definition is very similar to stock options or LEAPS, (Long-Term Equity Anticipation Securities) except that warrants are actually issued by a company, whereas options and LEAPS are created/written by investors.

Warrants are traditionally issued in connection with a company’s private placement or equity offering as additional incentive to get the deal done.

Warrants are mostly a matter of common sense and arithmetic, so let’s not make this complicated.

Stock warrants can be issued by companies for as little as 1 year or for 5 years or more.

Obviously, the longer the term of the warrant (time until expiration) the better your chances of great success.

However, just because a stock warrant has a 5 year life does not mean that you must hold the warrant for 5 years. With trading warrants you can buy the warrants one day and sell them the next day.

Exercising a warrant should never be one of your considerations, as it makes no sense to me.

**Exercising a warrant means you (or your brokerage firm) send the warrant certificate to the company along with the exercise price of the warrants and you then receive the common shares deposited into your account. If the warrants are trading you will have accomplished nothing other than paying a higher price for the shares.**

When you want to sell the warrants just sell. If you continue to like the common shares, then just buy the common shares after you sell your warrants. You will be dollars ahead with much less paperwork.

## Background and History of Warrants

Warrants have literally been available for investors for many decades but yet are very underappreciated and overlooked by most investors.

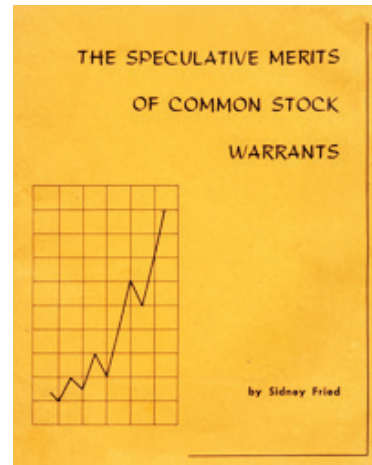
Through the years many large companies have had stock warrants trading, AT&T, Goldcorp, Bank of America, General Motors, Ford Motors and Agnico-Eagle Mines, among hundreds and hundreds of others.

My extensive knowledge of warrants goes back to the 1970's and my fascination with the writings of Sidney Fried and *The R.H.M. Warrant Survey*, a hard copy newsletter and a popular financial newsletter during the 1950s, 60s and 70s. (Fried, 1949) Sidney Fried passed away in 1991 at the age of 72 and to the best of my knowledge, his service stopped in the late 1970s or early 1980s around the time that options began to trade on the CBOE.

Sidney Fried's first book, '*The Speculative Merits of Common Stock Warrants*' (1949) is a rare and timeless educational tool for warrants and is the core of knowledge used by me in my service. Since 2005 I have used this cumulative knowledge of warrants which I learned from the 'master' to educate and assist investors around the world and I have collected all of the writings of Sidney Fried. Even though these works are old, the information is timeless and only the examples used are out of date.

One quote from Sidney Fried which I have used many times at investment conferences is very appropriate here:

**“With potential profits and losses so great it a source of wonder that so little understanding of the nature of common stock warrants exists, not only among the investing ‘public’, who might be forgiven this sin, but even among the many ‘professionals’ of the business upon whom the ‘public’ depends for information and guidance.”**



In the very popular and highly recommended book, "*The Coming Collapse of the Dollar and How to Profit from It*" by James Turk and John Rubino, they discuss options and LEAPS as a possible avenue for investing in the mining stocks. They did not discuss our third possibility, warrants, which I feel is more "investor friendly". Why? Because of the all-important element of **TIME**. How many times have your options expired worthless but yet within a few months or so your stock goes up; you just ran out of **TIME**?

## Why You Should Consider Warrants

### Leverage – Leverage – Leverage

Leverage – stock warrants are all about the upside leverage over the common shares.

I describe leverage as follows:

*‘The advantage that a warrant offers the investor is leverage, that is, a greater gain than would be possible with an equal investment in the common stock. Without this possibly of such leverage the investor would buy the common stock.’*



As a general rule the stock warrants will be selling at greatly lower price than the common shares, and can be bought for 1/3 to 1/2 of the price of the common shares, thus your capital investment is much, much less, saving you money versus buying the common shares.

#### **‘Show me the Beef’**

*while verbalizing is good, examples are best and there are many thought the years*

<u>Company</u>	<u>Share Gain</u>	<u>WT Gain</u>	<u>Leverage</u>
Bank of America WS B (2017)	114%	2376%	20.8
Northern Dynasty WT B (2017)	1127%	2486%	2.2
Blackbird Energy (2017)	535%	1416%	2.6
Organigram Holdings (2016)	550%	4271%	7.8
Brazil Resources (2016)	446%	1476%	3.3
New Gold WT A (2011)	1400%	3353%	2.4
Agnico-Eagle (2007)	110%	329%	3:1
Breakwater Resources (2007)	593%	1163%	2:1
Desert Sun Mining (2006)	530%	1244%	2.35
Blue Pearl Mining (2006)	1310%	3729%	2.8
Peru Copper (2005)	160%	1657%	10.4
Kimber Resources (2004)	394%	2542%	6.1
Ling-Temco (1966)	235%	2911%	12.4
General Tire & Rubber \$60WT (1959)	460%	2865%	6.2
General Tire & Rubber \$70WT (1959)	460%	4455%	9.6
Foremost Dairies (1955)	197%	742%	3.7
Selburn Oil (1952)	277%	1850%	6.6

**Warrants are attractive to investors because of the potential leverage or magnification of the gain that they offer and the lower capital required over the common shares as you can see from our examples listed in the previous table.**



## A Warrant on What?

Perhaps your most important decision will be to decide which stock warrants to buy.

Thus I ask, ‘a warrant on what’?

Which companies do you like that have stock warrants trading?

Alternatively, which companies do some of your favorite newsletters like, which have warrants trading?

Many of the other newsletter writers recommend some great companies but unfortunately, they too, overlook the opportunities that stock warrants offer and fail to mention them to their subscribers.

*“...rest assured that warrants are not mysterious, are not relegated to professionals, are not evil, and are not beyond the scope and portfolio of the investing public. Anyone who takes it upon himself to manage his own portfolio should be able to evaluate this market instrument. The warrant is to the investor what the level is to the carpenter; that is, just another tool, but one which helps him do the job expertly. As the carpenter knows and utilizes the tools in his box, you should understand and make use of the market vehicles at your disposal. (Prendergast, 1973)*

**For me and my subscribers, as investors, it is all about making money.**

If there are stock warrants trading on a company or companies which I like, and they have over 2 years of remaining life before expiration, the warrants will normally get my attention.

I, perhaps like you, subscribe to numerous investment services.

I see many companies being recommended and I know that some of them have stock warrants trading and offer wonder, ‘how can these newsletter writers/analysts overlook the fact that there are warrants trading on their recommendations?’

I have no answer to that question, except that investors need access to a complete listing of all warrants currently trading.

## Market Timing

As I am finalizing this guide, the markets at the current levels on March 10, 2017:

Dow Jones Industrial Average (DJIA) - 20,902

S&P 500 – 2,372

Gold - \$1204

Silver - \$17.06

With the DJIA and S&P 500 near historic highs, some are predicting substantially higher prices with the DJIA possibly exceeding 30,000 in the next few years. Of course, there are others in the business that are saying the markets are greatly overdue for a substantial correction.

Investor and speculators are left to decide for themselves, or with the assistance of their financial advisors, their opinion of the markets. That opinion will seal your fate of being a successful investor or not.

The same can be said for resource sector investors.

Gold and silver seem to have established a long-term bottom in late 2015 and while there has been substantial gains in the price of gold, silver, shares and other commodities, questions still linger as to whether the bottom is truly in place.

My personal opinion among many others in the business, Jim Rickard's, Doug Casey, Rick Rule, etc., is that we will see significant gains in the price of gold, silver, shares and stock warrants trading in this resource sector over the next few years.

If we are correct in our assessment, substantial gains will be made by investors in the resource sector by investing in companies with good properties, good management and cash in the bank.

Long-term warrants trading on those companies should be of great interest to those investors looking to maximize/leverage those opportunities.

As you can see, whether you are investing in the banking, bio-techs, pharmaceuticals, resource companies, etc., you will need to consider the current market trend.

The market trend, i.e., bull market, bear market or trending can greatly determine your level of success.

If you will, think about as a child getting on and off of a merry-go-round. When to jump on and when to jump off can be challenging and scary. Likewise, your timing with investments as to when to enter and exit your positions with warrants will determine your level of success.

Buying at high prices and staying in a position too long may greatly decrease your desired intentions of achieving 500%, 1,000%, 2,000% or more in gains.

There is no reason to believe that the price of a warrant is going to rise without an increase in the price of the common stock; of which, the warrant is an option to buy. The investor chooses to purchase the warrant in lieu of the company stock of a company because he anticipates that the price of the warrant will rise more rapidly than the price of the common stock. The warrant then offers the investor a greater return than the common stock, that is, the warrant offers greater leverage. But such potential leverage requires that the price of the common stock will rise, and hence the company itself must have potential for growth.

### Market Timing and Political/Economic Events

Allow me to present you with two real time examples involving stock warrants in the last few months, Bank of America, NYSE:BAC and Northern Dynasty Minerals, NYSE:NAK and TSX:NDM.

The common shares of both of these companies, in different investment sectors, benefited from the U.S. Presidential Election with Donald Trump winning.

The perception, whether real or not, was that the banking rules will be liberalized and in the case of Northern Dynasty that the Environmental Protection Agency, EPA will be relaxing rules which may allow the large copper/gold, Pebble Project, in Alaska to be permitted.

The effect on the common share prices of both BAC and NDM were great, but the real gains were made in the stock warrants of both companies, BAC.WS. (Up 2,376%) and NDM.WT.B (up 2,486%) all in a matter of a few months.

The charts for each will speak for themselves and don't you wished you had invested in either?



## Portfolio Allocation

As with any investment you (or in discussions with your investment adviser) must decide how much of your portfolio to allocate to different sectors, different shares, ETF's, mutual funds, gold bullion, etc.

Even though I view 'long-term warrants' (2 years or more of remaining life until expiration) as investments (as opposed to speculation), I find an allocation of 10% to 20% maximum of your portfolio as a reasonable allocation of your total dollars to this investment vehicle.

I have been asked, "Dudley, if you are the Warrant Guy, why do you only have 20 percent of your investments in warrants?"

"Good question and an easy answer..." I replied.

"Warrants, like options and LEAPS have an expiration date and it makes no sense in my opinion, to have over 20 percent of any investments in warrants, options or LEAPS that could potentially expire if left unattended."

### **Risk Factor:**

**Stock warrants, like options and LEAPS can expire worthless so investors need to follow these investments closely. Don't go to sleep and let your warrants expire worthless, be pro-active and alert to the trading activity and news on your companies.**

Obviously, the more time remaining on the life of your chosen stock warrants will allow more opportunity for gains. However, I remind all investors do not forget to take profits when you have some outrageous gains. Look back at my example with Northern Dynasty WT B. Large gains could have been made (or loss) depending upon when you bought. If you were fortunate to have bought those warrants for pennies, hopefully, you sold them for several dollars.

Never stay too long at the party and allow your gains to disappear. Just because a warrant has a long life, if it performs well and you have large profits, take them as they come. This is your decision and will determine whether you are a winner or loser.

Once again your timing of your investment in stock warrants will depend upon your assessment of the current market environment. See my section on Market Timing for more information.

# Private Placements vs. Trading Warrants

## Private Placements

By all means, if you have the opportunity to invest in a private placement on a company (that you like) and there are stock warrants attached you should take advantage of the situation.

### **U.S. Companies:**

In the United States, most of the offerings will be closed before they even come to your attention but following the news on your favorite companies should give you a heads up on new offerings.

### **Canadian Companies:**

- **Canadian Investors**

For the Canadian companies, if you are a Canadian investor it will be easy, but, you must meet the requirements of being an accredited investor. (Wikipedia, 2017)

- **U.S. Investors**

If you are a U.S. investor you will also be required to be an accredited investor (Investopedia, 2017), in addition, you must have a brokerage firm which will accept your 'foreign shares and/or warrant certificates'.

Normally, this will mean that as a U.S. investor will need a Canadian brokerage account, which is virtually impossible to open, unless you live outside of the United States.

U.S. investors interested in investing in the Canadian private placements should first seek out a full service brokerage firm, such as, Sprott Global Resource Investments for their assistance. (Sprott Global Resource Investments, 2017)

- **Foreign Investors**

If you reside in a jurisdiction other than Canada and the United States you can participate in a Canadian private placement and use the Foreign Purchaser's Certification, thus requiring no accredited investor status and a much simplified application.

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Virtually all companies at one time or the other in connection with raising money will issue stock warrants.

Many of those warrants will never trade.

The decision as to whether a warrant will trade or not lies solely with the company's management and/or financial advisors.

When a company raises money in a private placement, it issues a "unit," which consists of a share and a warrant.

Like many financial vehicles, warrants have some "moving parts" you need to understand in order to properly use them.

Remember, a warrant is a security that gives the holder the right, but not the obligation, to buy a stock at a predetermined price and at a predetermined point in the future.

There are many different types of warrants.

For example, a warrant might grant its owner the right but not the obligation to buy a stock at \$2 per share at any time over the next two years. Or, a warrant might grant its owner the right but not the obligation to buy a stock at \$1 per share over the next five years.

### **Strike Price: Lower is better**

The first aspect of a warrant you need to know about is the "strike price." This is the price at which you can buy stock at some point in the future.

If a warrant has a strike price of \$2 that means you will be able to buy company stock at \$2 at some point in the future.

In the case of a warrant with a strike price of \$2, if a resource company is trading for \$1 per share, the warrant has no intrinsic value. But if the company achieves major success and sees its stock price soar to \$6, the warrant will have an intrinsic value of \$4, since it allows you to buy stock for \$2 per share, which you could then sell for \$6 per share ( $6 - 2 = 4$ ).

When the share price of a stock is trading above the warrant's strike price, we say the warrant is "in the money." When the share price of a stock is trading below the warrant's strike price, we say it is "out of the money."

The closer the strike price is to the current stock price, the more likely the warrant is to go in the money or to expire in the money, and the more it will be worth. In most private placements, the strike price of the warrants is higher than the private placement share price.

### **Expiration Date: Longer is better**

The second aspect of a warrant you need to know about is the "expiration date." This is the date at which the contract expires.

After the contract expires, neither the company nor the holder have any rights or obligations associated with the warrants. If a warrant expires “out of the money,” it is worthless.

The further in the future the expiration date is, the more time a company has to achieve success; and the higher the share price, the more the warrant will be worth.

In other words, all things being equal, a “3-year” warrant is worth more than a “1-year” warrant...and a “5-year” warrant is worth more than a “3-year” warrant.

Most warrants issued in private placements have expiration dates 1 - 5 years in the future.

### **Conversion Ratio: More is better**

The conversion ratio of a warrant is the number of shares applicable to the warrant.

Some warrants are good for one-quarter of a share, which is known as a quarter warrant. This means you need four warrants to buy one share.

Some warrants are good for one-half of a share (you need two warrants for one share). These are called “half warrants.”

Some warrants are good for a full share (you need one warrant for one share). These are called “full warrants.”

Obviously, a full warrant is better than half of a warrant. You will want warrants that can convert into as many shares as possible.

With all this in mind, the best warrant “sweeteners” for private placement investors will have:

**-Lower, rather than higher, strike prices.** This makes the warrants more likely to go or expire “in the money” and have intrinsic value. If I participate in a private placement at say, \$0.50 per share, I’d rather get warrants with a strike price of \$1 instead of \$2.

**-Longer, rather than shorter, expiration dates.** This gives the company more time to achieve success and a higher share price...which gives the warrants more time to go or to expire “in the money” and have intrinsic value. I’d rather get 3-year warrants than 1-year warrants. I’d rather get 5-year warrants than 3-year warrants.

**-Higher, rather than lower, conversion ratios.** You want warrants that convert into as much stock as possible. This is why I prefer full warrants.

## Trading Warrants

Some warrants trade freely on stock exchanges. You can buy and sell them on the open market.

As I mentioned previously, the decision to allow the warrants to trade or not lies solely with management and/or their financial advisors.

Freely tradable warrants are much better than non-tradable warrants for both investors and the company. Freely tradable warrants are better for the investor because they trade freely and there is a real bid-ask market for the warrants.

Free trading shares are also much better for the company issuing the warrants. Because many fund managers are prohibited from buying stocks under \$1 per share (sub \$1 stocks are seen as riskier), free trading shares allows the company to expand its base of investors. However, the same fund managers are allowed to buy warrants. Those managers can buy the warrants and become investors in the company.

Whether or not a warrant is freely tradable depends on whether it is *listed* or not. In a company's news release, it will mention something like, "*The warrants are listed on the TSX Venture Exchange under the trading symbol XYZ.WT.TO.*"

A freely tradable warrant on a Canadian company will have ".WT" in its symbol.

In the United States, a trading warrant will have a symbol ending in "W" or ".WS" on the NYSE, NASDAQ, AMEX or OTC markets.

Ideally, we get warrants that are freely tradable. It's good to be able to sell the warrants on the open market whenever you like. But you do not have the obligation to sell or exercise the warrants when they are listed. It is just an extra option for you as the investor.

The other advantage of a freely tradable (or listed) warrant is that it does not have to be above the strike price to be able to realize a profit.

When a non-tradable warrant has a strike price of \$1.00 but the stock is at \$0.75, you would not want to exercise the warrant. It's not in the money.

In this situation, a freely tradable warrant still has value. If you wanted to, you could sell the warrant on the exchange. You couldn't do this with a non-tradable warrant.

The best type of warrant is a free trading, full 5-year warrant with a strike price that is 50% higher than the share price at the time of financing.

It's rare that valuable "5-year" warrants are issued by companies but when you find a "5-year" warrant trading you need to pay attention and thoroughly investigate more for this could just be your next 10 bagger.



You could think of free-trading full 5-year warrants as the “Ferrari” of warrants (Katusa) and there are many 5-year warrants which have been issued in the U.S. and Canada markets in the last 12 months.

# How I Determine Current Values

## Defining Over Valued, Fair Value and Under Valued

Sidney Fried in *'The Speculative Merits of Common Stock Warrants'* used a very simplistic approach.

What IF?

What if, the price of the common shares goes up 100%, what will the warrant do?

This is simple math and Sidney was looking for those warrants which would outperform the common shares by at least 2 to 1 using this approach.

I basically follow this approach as well in determining whether a warrant is:

### Overvalued – Undervalued – Fairly Valued

At Common Stock Warrants, I maintain a large database of all warrants trading and at least once a week I update the data and revisit the current valuations.

I take the “what if” approach and determine how the warrants will trade if the common shares go up, 50%, 100%, 200% and 400%.

My general rule is to look at the 100% column, similar to Sidney Fried, which is if the common shares go up 100% what will the warrant do?

After updating all prices and calculations, I review the leverage calculations once a week on all of the warrants. I am looking at many factors, including the bottom-line leverage and the remaining life of the warrant.

**Undervalued** = a current leverage of 1:7 to 1 or higher (this is correct, anything over 1.7 is great leverage)

**Fair Value** = a current leverage of 1:1 to 1:6 to 1 (this is similar to a neutral leverage)

**Overvalued** = a current leverage of less than 1:1 to 1 (should normally be avoided)

A warrant trading with a very short remaining life and out of the money will also get my Overvalued Rating.

CURRENT RATING
Fair Value
Fair Value
Undervalued
Fair
Overvalued
Undervalued
Fair Value
Undervalued
Fair Value
Fair Value
Undervalued
Undervalued

Also, remember, the valuations will change as the price of the common shares and the warrants fluctuate. In fact, it is possible for the rating to get better as the price of the common shares and warrants increase and the warrants to be a 'better buy' even though at a higher price due to the relationship of the prices of each.

**Black-Scholes Formula** (Investopedia, 2017)

Some investors are familiar with the Black-Scholes formula for valuing options. This formula takes into consideration, the current price of the common shares, the exercise price of the options or warrants, the remaining life, a volatility factor and an assumed interest rate. I feel our valuation ratings are accurate enough but you may use a Black-Scholes formula found on the internet if you desire to do so. (MyStockOptions, 2017)

## **Are You a U.S. or Canadian Investor?**

If you are a Canadian investor you will have no problem investing in stock warrants.

As a U.S. investor buying the stock warrants trading on U.S. companies is not a problem.

However, if you are a U.S. investor and interested in the Canadian warrants trading, that can present a small challenge depending upon your brokerage firm.

### **U.S. Trading Warrants**

Investors around the world with brokerage firms allowing trading in the United States should have no problem trading warrants.

The warrants in the U.S. are trading either on the NYSE, AMEX, OTC markets, or the NASDAQ and can easily be purchased through your current brokerage firm.

### **Canadian Trading Warrants**

#### **Canadian Investors:**

There will be no difficulty buying the warrants through your brokerage firm.

#### **U.S. or other investors in the world:**

For United States investors it may be slightly more difficult depending on your personal brokerage firm to purchase the Canadian stock warrants.

The fact is that many of the stock warrants trading in the natural resource sector are on Canadian companies.

Those Canadian stock warrants have not and will not be registered in the United States, but U.S. investors can buy and sell them, but not exercise them (which we never recommend anyway).

The Canadian company will not normally apply for a listing on a U.S. exchange, but there are exceptions.

In many cases, however, a U.S. market maker will establish a market for specific Canadian warrants and will assign a U.S. trading symbol (5 alpha characters ending in F) to facilitate trading in the U.S.

For those Canadian stock warrants trading without a U.S. symbol this may create another issue for U.S. investors.

If your current U.S. brokerage firm will allow you to place an order using the Canadian symbol for the stock warrants that is the preferred method.

## Brokerage Firms

If you are just interested in the U.S. stock warrants trading on the NYSE, AMEX, NASDAQ, and in the OTC markets, your traditional brokerage firms, i.e., Scottrade, E\*TRADE, Ameritrade, Fidelity, etc. will be able to execute your trades.

Once again, the issue is which brokerage firms will allow you to easily buy the Canadian stock warrants.

Honestly, most investors do not want to have or open any more brokerage accounts than absolutely necessary. If there was ever a reason to open another account to facilitate placing orders for Canadian stock warrants, however, then this is it.

The following brokerage firms represent a fraction of the available sources, but are each capable and proven to easily execute trades on warrants.

### Interactive Brokers

Currently, my preferred broker, is **Interactive Brokers (IB)**, especially for U.S. investors looking to purchase the stock warrants trading on Canadian companies.

IB allows clients to trade in virtually all markets, worldwide, from stocks, futures and options, etc.



It is an easy signup process and if you are only going to trade the Canadian stock warrants or Canadian securities, I would suggest setting your Currency to Canadian in the IB (Interactive Brokers) system.

You can easily download their **Trader WorkStation** platform at which time you will see your account and have access to all of the Canadian stock warrants which are trading. Clients must download the Trader WorkStation to see all of the Canadian stock warrants

I realize that most investors, myself included, hate to open new accounts and have to deal with more paperwork. The benefits to be gained by having a brokerage firm, however, will allow you to easily buy and sell the Canadian stock warrants and simplify your life. Interactive Brokers allows customers to trade stock warrants, stocks, futures and options all in one account.

**Canadian or U.S. stocks or stock warrants, no problem.**

Making trading decisions is difficult enough without having to worry about whether your broker will execute a trade.

## PennTrade

PennTrade is now the online trading division of Paulson Investment Company, LLC. Founded in 1970 in Portland Oregon, Paulson Investment Company earned national distinction as a premier boutique investment bank in the small to mid-cap market, leading 175 public and private offerings and raising over \$1.2 billion in financing.



<https://trade.penntrade.com>

PennTrade is a very friendly and easy to use broker and I highly recommend them.

## Fidelity Investments

I do not have an account at Fidelity but understand that after opening a basic account; one then has access to sign up for International Stock and Currency Trading. This will allow investors to purchase the Canadian stocks and stock warrants either online or by using their customer support.



<https://www.fidelity.com/>

## Sprott Global Resource Investments, Inc.

Sprott Global is a full service brokerage firm, based in Carlsbad, California and will execute your trades on the Canadian securities. Rick Rule runs the show and is one of the top spokespersons for the natural resource sector. They will do a good job for you, albeit, with higher commissions as a full service company.



<http://sprottglobal.com/>

## How to Place Your Trades

Most of the warrants trading today on the commodity and natural resource shares are on Canadian companies and thus it is necessary to have a basic knowledge of the benefits and limitations thereon.

An original issue of Canadian securities cannot be sold in the United States unless they are registered with the Securities and Exchange Commission. This means that an American cannot buy Canadian securities when they are newly issued. **He can buy them after they are issued and are trading, but he cannot buy the new issue that contained the warrants (unless they are registered with the SEC).**

Secondly, a **United States citizen cannot exercise the Canadian warrant.**

If he exercised the warrant, he would receive a newly issued share and unless those shares have been registered with the SEC he cannot legally purchase them.

Again, not a problem, as we personally see no reason for an individual investor to ever exercise a warrant.

### **Limit Orders**

Warrants, like many of the smaller Canadian mining stocks, may have very thin markets and a big spread between the bid and ask prices. I always recommend you place only Limit Orders when buying or selling the warrants or the Canadian mining stocks.

The following sections cover some of the basic issues that arise when approaching warrants as an investor.

### 1. Symbols

Warrants trade exactly like the underlying common stock and they are assigned a symbol for trading.

#### United States Companies

The stock warrants trading on U.S. companies are clearly marked in our databases with the symbols and complete information.

#### Canadian Companies

- Canadian investors: As most of the warrants are on Canadian companies, you will have find it very easy to execute your orders with the Canadian symbol which we furnish in our database.



- U.S. investors: I provide the Canadian symbol and U.S. symbol, if available, in our databases. Approximately 60% of the Canadian warrants in our database have an assigned OTC symbol. For all of the warrants, I provide the CUSIP number (the legal identification for each security) in our database which eliminates any issues from your brokerage firm as to the correct symbol for them to use for a specific warrant to place your order.

If your brokerage firm allows for the placement of orders using the Canadian symbols, great. If not, I suggest you open an account at one of the four suggested Brokerage firms above. See Brokerage Firms.

## 2. Exercising Warrants

I, personally, see no reason for an individual investor to ever exercise a warrant.

When the warrant has met your financial objective, you just sell the warrant as you would the common stock. You can sell the warrants anytime you want to and do not have to hold to the expiration date (as a few investors erroneously believe). The potential for a warrant to lose value as they approach the expiration is a primary reason we find greater value in warrants with longer life.

Many of the shares of the Canadian companies have not been registered in the United States. The same goes for the warrants other than a few which are trading on the U.S. exchanges. This is important to understand in that U.S. investors can generally not exercise the warrants as they are not registered in the United States.

Please note the difference; United States investors can purchase the warrants but are generally not allowed to exercise them. Not a problem. Remember, my belief and rule is that it is never advisable for investors to exercise the warrants anyway, whether you are a Canadian citizen, U.S. citizen, etc. You just sell them when your investment target has been reached.

## 3. Expiration Date – Be Aware

**This is very important, read the following very carefully.**

If your warrants are “in the money”, i.e. the common stock is trading above the exercise price of the warrants and the warrants are approaching the expiration date you must take some action.

Unlike, call options, which if “in the money” and the options expire, the value of the option is placed automatically into your brokerage account, right? With warrants, this is not the case!!

EXPIRATION DATE	EXC PRICE	CUR	WARRANT TERMS
2019-12-19	\$5.00	USD	1 wt: 1 sh
2018-10-17	\$5.00	USD	1 wt: 1 sh
2020-07-30	\$11.50	CDN	2 wt: 1 sh
2018-08-20	\$0.60	CDN	1 wt: 1 sh
2019-02-12	\$11.50	USD	1 wt: 1 sh
2019-01-07	\$10.00	CDN	1 wt: 1 sh
2018-08-30	\$28.46	CDN	1 wt: 1 sh
2021-01-19	\$44.90	USD	1wt:1.002 sh
2023-04-30	\$16.67	USD	1 wt: 1 sh
2019-11-16	\$3.50	USD	1 wt: 1 sh

You must sell your position before the expiration date, or you will receive nothing. Also, if you hold warrants in a company and the company makes an offer for the warrants, via an early buy back, you must, must, must do something.

The message here is to be alert as to the news, events and approaching expiration date of any warrants which you hold.

Unless a company has a specific early call feature there would be no limitation on when you can sell up to the expiration date.

#### 4. Company Mergers or Buyouts

##### **What happens to warrants if the company is taken over or merges?**

In a stock exchange arrangement, the warrants will continue on as warrants of the acquiring company with the same expiration date and with the exercise terms adjusted to reflect the terms of the stock exchange in the merger.

Recent history has taught me that when a merger is announced and the company being acquired is consenting to the deal and the terms are a stock exchange as opposed to a cash buyout that investors should best sell their warrants at the prevailing market price. Our rationale is that if management has consented to the deal this will usually prevent any other suitors. Also, these deals take months to actually close and your investment dollars are basically dead money during this long process.

## Hedging with Stock Warrants

Sophisticated investors may be interested in the many possible hedging strategies using stock warrants, but you will find little to no information available with respect to using warrants as part of a hedge strategy.



Our mission will be to continue to monitor the potential uses of warrants, so to get started we see the following opportunities:

- Long warrants on your favorite companies (my personal favorite for large gains)
- Long warrants and short the common shares
- Long warrants and sell puts
- Sell short stock warrants (very risky unless protected)
- Short warrants and buy call options

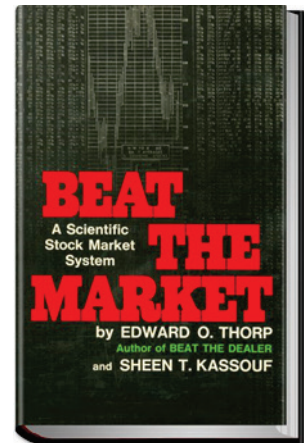
Sidney Fried in *The Speculative Merits of Common Stock Warrants* also provides some information and examples on hedging with stock warrants.

Many readers will remember the name, Edward O. Thorp, Ph.D. Mr. Thorp wrote several books including *Beat the Dealer* (1966) *A Winning Strategy for Blackjack* and *Beat the Market* (1967).

*Beat the Market* (*A Scientific Stock Market System*) was co-written by S. Kassouf and dealt almost exclusively with stock warrants and hedging strategies. It is available for download on the internet and a link is provided in the references section following the content of this guide.

*“The vast potential profit from trading warrants and selling securities short are attended by terrible risks. Now we show you how to keep substantial profits by combining two or more otherwise risky investments so that the risk nearly “cancels out,” yet much of the profit is retained. Combining investments to reduce risk is hedging.”*

The Federal Reserve’s rules will dictate the margin requirements on many hedge positions using options and/or stock warrants. Your brokerage firm, as well, may have other restrictions on your hedging transactions.



### Reference materials:

**Federal Reserve** (Federal Reserve, 2017)

**Options Strategies | Stock Trading Strategies – CBOE** (CBOE, 2017)

**CBOE Margin Manual** (CBOE, 2017)

**The Securities Institute of America** (The Securities Institute of America, 2017)

### **Closing Comments on Hedging**

While the opportunities for hedging with warrants are many, sophisticated investors will be on their on to develop strategies which they feel will benefit them using their guidelines and tolerance for potential gains and risk.

### **Congratulations**

I hope you have stayed with us in this Guide to Stock Warrants, and if so, you are now in an elite group of savvy investors ready to grab some outrageous gains in the next few years.

My professional background was in accounting and Federal Tax in the United States and you can see my complete bio on my website. ([www.commonstockwarrants.com](http://www.commonstockwarrants.com)) I bring 40 years of accumulated knowledge and experience in trading stocks, options, leaps, futures, options on futures and of course, warrants to assist investors in achieving their objectives.



### **Other References:**

My interviews and articles on the subject can be found on many popular investment platforms, including:

<a href="http://321Gold.com">321Gold.com</a>	<a href="http://FinancialSurvivalNetwork.com">FinancialSurvivalNetwork.com</a>
<a href="http://TalkMarkets.com">TalkMarkets.com</a>	<a href="http://Munknee.com">Munknee.com</a>
<a href="http://Kitco.com">Kitco.com</a>	<a href="http://Investing.com">Investing.com</a>
<a href="http://SeekingAlpha.com">SeekingAlpha.com</a>	<a href="http://Goldseek.com">Goldseek.com</a>
<a href="http://TheGoldReport.com">The Gold Report (theaureport.com)</a>	<a href="http://StockHouse.com">StockHouse.com</a>
<a href="http://BNN.com">BNN (Business News Network)</a>	<a href="http://EllisMartinReport.com">EllisMartinReport.com</a>
<a href="http://KorelinEconomicsReport.com">Korelin Economics Report</a>	<a href="http://PalisadeRadio.com">PalisadeRadio.com</a>

## Glossary of Terms

**Exercise:** The act of sending your warrant to the company, paying the exercise price and then receiving new common shares of the company.

**Exercise price:** The price the company has determined for converting the warrants into common shares.

**Expiration date:** The exact date the company has determined for the warrants to expire in the future after which there will be no value.

**Liquidity:** The absence of sufficient trading volume to execute your trades, and/or a large spread between the bid and ask prices.

**In the money:** See Intrinsic value

**Intrinsic value:** Intrinsic Value, frequently referred to as “in the money” is the difference between the current price of the common stock less the exercise price of the warrant. If say, the common stock of a company is \$10 and the exercise price of the warrant is \$8, the warrant is actually worth \$2 and is said to have “intrinsic value” or is “in the money” by \$2.

**LEAPS:** LEAPS which stands for Long Term Equity Anticipation Securities is also an option as defined above but these have a longer life of perhaps up to 2 ½ years.

Options and LEAPS are actually created or written by investors or companies who write an option and keep the premium (the amount you paid) as income. The underlying company receives nothing. For more information on options or LEAPS, visit [www.cboe.com](http://www.cboe.com)

**Leverage:** We like to define leverage as getting the maximum return with the least amount of your investment capital at risk.

**Leverage Indicator:** The leverage indicator is the price of the common shares divided by the price of the warrant. This indicator can be a useful tool but can also be very deceiving. The higher the number ‘may’ indicate a higher probability of success. However, this should only be considered if the warrant has remaining life of over 2 years. Only consider the leverage indicator as merely a hint that a warrant may be desirable.

**Limit order:** <sup>1</sup>

- When buying: you are committing to pay no more than a specific price per share to execute your order.
- When selling: you are requesting to receive no less than a specific price per share/per warrant on your trade.

**Long-term warrant:** Our personal definition of a long-term warrant is one that has a remaining life until expiration of at least 2 years, but obviously, the long the term the better.

**Market order:** You are agreeing to pay whatever the current market price is and if selling you are agreeing to accept the current market. A market order is **NEVER** advisable for trades in the small Canadian shares or in the warrants.

**Market capitalization:** The market capitalization for any company is the total shares outstanding times the price of the common shares.

**Options:** A call option is a contract that gives its owner the right, but not the obligation, to buy a specified number of shares at a predetermined price within a set period of time. Most options have a life of 90 days, 180 days or perhaps up to 1 year. For more information on options or LEAPS, visit [www.cboe.com](http://www.cboe.com)

**Out of the money:** When the price of the common share is trading below the exercise price of the warrant.

**Theoretical Value:** This is basically the 'intrinsic value' (see above) of the warrant. If the price of the common stock is below the exercise price of the warrant, there is no theoretical value.

**USD – United States Dollar Index:** This USD Dollar Index is computed using a trade-weighted geometric average of six currencies

**Warrant:** A warrant is a security (like an option) giving the holder the right, but not the obligation, to purchase the underlying stock at a specific price, within a specified time period.

**Worthless:** A warrant, like a call option or a LEAP, can be totally worthless upon expiration if the common shares are trading below the exercise price.

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<sup>1</sup> I advise ALWAYS using Limit Orders for trading warrants and the small Canadian shares.

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COMPANY NAME	INDUSTRY	SYMBOL	WT	SYMBOL	CUSIP OR US	EXPIRATION	EXG	CUR	WARRANT	LAST	LAST	WT	WT	INTRINSIC	INSIDERS	MARKET CAP	CURRENT	RATING
				DETAIL		DATE	PRICE		TERMS	COMMON	COMMON	WT	VOLUME	VALUE				
Abeona Therapeutics	Pharmaceuticals	ABEO	ABEOW	News		2019-12-19	\$5.00	USD	1 vrt: 1 sh	\$4.700	\$4.030	93		-0.30	Click Here	114060000	Fair Value	
Advaxtis Inc.	Bio-Tech	ADXS	ADXSW	News		2019-10-17	\$5.00	USD	1 vrt: 1 sh	\$7.860	\$4.010	200		2.86	Click Here	246776459	Fair Value	
Acasta Enterprises	SPAC - Blank Check	AEF.A:TO	AEF.WT:TO	News		2020-07-30	\$11.50	CDN	2 vrt: 1 sh	\$9.970	\$1.150	128400		-0.76	Click Here	348950000	Undervalued	
Atlantic Gold Corp	Mining - Gold	AGB.V	AGB.WT.V	048540Q119		2018-08-20	\$0.60	CDN	1 vrt: 1 sh	\$1.170	\$0.600	33701		0.57	Click Here	132864031	Fair	
AgroFresh Solutions (Formerly/Boulevard Acq. Corp)	Agriculture	AGFS	AGFSW	News		2019-02-12	\$11.50	USD	1 vrt: 1 sh	\$3.950	\$0.220	29100		-7.55	Click Here	106871875	Overvalued	
Alamos Gold	Mining - Gold	AGL:TO	AGL.WT.A:TO	News		2019-01-07	\$10.00	CDN	1 vrt: 1 sh	\$10.900	\$3.450	3100		0.90	Click Here	2797682501	Undervalued	
Alamos Gold	Mining - Gold	AGL:TO	AGL.WT:TO	AHGDFF		2019-08-30	\$28.46	CDN	1 vrt: 1 sh	\$10.900	\$0.300	23003		-17.56	Click Here	2797682501	Fair Value	
American Intl Group	Insurance	AIG	AIG.WS	News		2021-01-19	\$44.90	USD	1vrt:1.002-sh	\$61.340	\$20.394	37398		16.40	Click Here	81790476044	Undervalued	
Anbac Financial Gp	Financial Products-Svcs	AMBC	AMBCW	News		2023-04-30	\$16.67	USD	1 vrt: 1 sh	\$17.790	\$8.750	4235		1.12	Click Here	800615467	Fair Value	
Applied DNA Sciences	Bio-Security Solutions	APDN	APDNW	News		2019-11-16	\$3.50	USD	1 vrt: 1 sh	\$1.800	\$0.430	5025		-1.70	Click Here	36649964	Fair Value	
Arowana Inc	Blank Check Co.	ARWA	ARWAW	News		2020-04-30	\$12.50	USD	2 vrt: 1 sh	\$11.770	\$0.304	27030		-0.37	Click Here	84744000	Undervalued	
Associated BancP.	Banking - Financial Svcs	ASB	ASB.WS	News		2019-11-21	\$19.77	USD	1 vrt: 1 sh	\$23.550	\$4.900	1620		3.78	Click Here	3591891499	Undervalued	
Avino Silver & Gold	Mining - Gold & Silver	ASM	ASM.WT.V	053906111		2019-11-28	\$2.00	USD	1 vrt: 1 sh	\$1.730	\$0.500	600		-0.27	Click Here	90617400	Undervalued	
Asterias Biotherapeutics	Biotechnology	AST	AST.WS	News		2021-05-13	\$4.37	USD	1vrt: 1 sh	\$3.250	\$0.390	3794		-1.12	Click Here	144820000	Undervalued	
Axion Power Intl	Battery Storage Tech	AXPW	AXPWV	News		2019-10-28	\$17.50	USD	1 vrt: 1 sh	\$0.008	\$0.200	1000		-17.49	Click Here	21600	Overvalued	
AYTU Bioscience	Bioscience	AYTU	AYTUW	News		2021-05-06	\$0.50	USD	1 vrt: 1 sh	\$0.900	\$0.110	1		0.40	Click Here	40374000	Undervalued	
Bank of America Wt.A	Banking - Financial Svcs	BAC	BAC.WS.A	News		2019-01-16	\$13.30	USD	1 vrt: 1 sh	\$23.070	\$10.800	916563		9.77	Click Here	242283452029	Undervalued	
Bank of America Wt.B	Banking - Financial Svcs	BAC	BAC.WS.B	News		2019-10-28	\$30.79	USD	1 vrt: 1 sh	\$23.070	\$0.924	380645		-7.72	Click Here	242283452029	Overvalued	
Blackbird Energy	Oil & Gas	BBLV	BBL.WT.V	BKBFFF		2021-05-19	\$0.30	CDN	1vrt: 1 sh	\$0.500	\$0.280	144500		0.20	Click Here	178965000	Fair Value	
Barrington/Hilco Acquisition	Blank Check Company	BHAC	BHACW	News		2018-02-05	\$12.50	USD	1 vrt: 1 sh	\$10.250	\$0.175	21017		-2.25	Click Here	58028694	Undervalued	

