

Day Trading

Your Dollars at Risk

Day traders rapidly buy and sell stocks throughout the day in the hope that their stocks will continue climbing or falling in value for the seconds to minutes they own the stock, allowing them to lock in quick profits.

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Day traders usually buy on borrowed money, hoping that they will reap higher profits through leverage, but running the risk of higher losses too.

While day trading is neither illegal nor is it unethical, it can be highly risky. Most individual investors do not have the wealth, the time, or the temperament to make money and to sustain the devastating losses that day trading can bring.

Here are some of the facts that every investor should know about day trading:

- **Be prepared to suffer severe financial losses**

Day traders typically suffer severe financial losses in their first months of trading, and many never graduate to profit-making status. Given these outcomes, it's clear: day traders should only risk money they can afford to lose. They should never use money they will need for daily living expenses, retirement, take out a second mortgage, or use their student loan money for day trading.

- **Day traders do not "invest"**

Day traders sit in front of computer screens and look for a stock that is either moving up or down in value. They want to

ride the momentum of the stock and get out of the stock before it changes course. They do not know for certain how the stock will move, they are hoping that it will move in one direction, either up or down in value. True day traders do not own any stocks overnight because of the extreme risk that prices will change radically from one day to the next, leading to large losses.

- **Day trading is an extremely stressful and expensive full-time job**

Day traders must watch the market continuously during the day at their computer terminals. It's extremely difficult and demands great concentration to watch dozens of ticker quotes and price fluctuations to spot market trends. Day traders also have high expenses, paying their firms large amounts in commissions, for training, and for computers. Any day trader should know up front how much they need to make to cover expenses and break even.

- **Day traders depend heavily on borrowing money or buying stocks on margin**

Borrowing money to trade in stocks is always a risky business. Day trading strategies demand using the leverage of borrowed money to make profits. This is why many day traders lose all their money and may end up in debt as well. Day traders should understand how margin works, how much time they'll have to meet a margin call, and the potential for getting in over their heads.

- **Don't believe claims of easy profits**

Don't believe advertising claims that promise quick and sure profits from day trading. Before you start trading with a firm, make sure you know how many clients have lost money and how many have made profits. If the firm does not know, or will not tell you, think twice about the risks you take in the face of ignorance.

- **Watch out for “hot tips” and “expert advice” from newsletters and websites catering to day traders**

Some websites have sought to profit from day traders by offering them hot tips and stock picks for a fee. Once again, don't believe any claims that trumpet the easy profits of day trading. Check out these sources thoroughly and ask them if they have been paid to make their recommendations.

- **Remember that “educational” seminars, classes, and books about day trading may not be objective**

Find out whether a seminar speaker, an instructor teaching a class, or an author of a publication about day trading stands to profit if you start day trading.

- **Check out day trading firms with your state securities regulator**

Like all broker-dealers, day trading firms must register with the SEC and the states in which they do business. Confirm registration by calling your state securities regulator and at the same time ask if the firm has a record of problems with regulators or their customers. You can find the telephone number for your state securities regulator in the government section of your phone book or by calling the North American Securities Administrators Association at (202) 737-0900. NASAA also provides this information on its website at www.nasaa.org/QuickLinks/ContactYourRegulator.cfm.