



Day Trading Dreamer

Dear Dr. Per Cap:

I heard about a guy who made a ton of money buying and selling GameStop stock. I keep thinking that could be me if I invested per cap. What does it take to be a day trader?

Signed,

Day Trading Dreamer

Dear Day Trading Dreamer

If you've got \$25,000 you can be a day trader. But the question you needed to ask is - what does it take to be a successful day trader?

There's a lot of hype over day trading these days. The GameStop fiasco, in which a loosely organized group of individual investors turbocharged the company's stock price nearly 2,000% in three weeks by firing up online message boards and chat rooms, is front and center. Whether you spin the story as a noble band of t-shirted day traders sticking it to evil hedge fund managers or rabble rousing radicals causing disruption and chaos to financial markets – the idea of making a quick fortune betting on stocks with an iPhone is pretty enticing.

A day trade happens when a person buys and sells or (sells and buys) the same stock on the same day using a margin account (a special type of brokerage account that lets you trade with borrowed money). According to the Financial Industry Regulatory Authority (FINRA) a pattern day trader is a person who executes "four or more day trades within five business days".

A day trader is also required to maintain equity of at least \$25,000. So you need some fairly heavy pockets to get started. The added risks of frequent trades with borrowed money makes a day trader a totally different breed than your typical buy and hold investor who socks away retirement contributions into a 401k.

Day trading has been around for years and to be good you have to pick more winners than losers. Make the right stock picks about 55% of the time and you stand a chance. As a kid my older sister had a friend whose dad was a day trader, although that wasn't a term back when we watched the Six Million Dollar Man on Friday nights. Spoiler alert – the show wasn't about a day trader.

This guy actually had a ticker machine installed on his bedroom wall so he could check stock prices when he woke up. Long before CNBC and smartphone apps made real time quotes as ubiquitous as sunflowers in North Dakota. He did really well too. They owned a giant house in a high end neighborhood with an upstairs turret that to a seven-year-old looked like a castle – No joke.

However, I think it's misguided to think anyone can day trade for a living and ride off into the sunset. It's not easy money and the vast majority of people who set out to become day traders don't last. You're competing against pros using ultra-high speed networks, massive amounts of capital, and proprietary electronic trading algorithms that crunch enough terabits of data to fill a warehouse with hard drives. Think of a high school football team going up against the Super Bowl champs.

In good faith I can't recommend a day trading career to anyone because it doesn't align with my financial education mindset. However, if a person just can't resist chasing the dream please consider this:

1. Don't kid yourself. Many day trades are more about gambling than investing.
2. Don't day trade more than you can afford to lose.
3. Don't quit your day job.
4. Learn as much as you can about stocks, brokerages, and trading strategies before you trade one penny.
5. And please, whatever you do - don't become a basement hermit wearing neon sweatbands and a t-shirt with a kitten while clicking trades on a purple backlit keyboard.

For more information and tips on how to avoid losing your shorts day trading check out this recently published investor alert from FINRA.

<https://www.finra.org/investors/alerts/following-crowd-investing-and-social-media>

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