

Day Trading

It's the Rage on Some Campuses:
Here's What the Motley Fool Thinks About It.

FOOLU

You will no doubt hear of people bragging of the ease with which they've made a mint in a matter of weeks by day trading. Day trading is the attempt to trade into and out of stocks on a minute-by-minute basis, trying to make money on rapid price moves. Sound seductive? It is, but we don't like this get-rich-quick approach. We simply don't think that people can sustain it over time. Here's why:

It's extremely difficult to make money over time by day trading. Just as in gambling, the odds are stacked against you, and the longer you play, the more likely it is that you'll lose. You're attempting to guess which way a stock is going to move in the next few hours, minutes and even

seconds. We just don't think this is possible—at least not any more possible than guessing which number is going to come up next on the roulette wheel. Any gambler can hit a hot streak; the streak has very little to do with strategy and everything to do with the law of averages.

Just as in gambling, there is the danger that you can become addicted. This isn't Monopoly money you'll be playing with or worthless plastic chips—it's your hard-earned cash, the money you need for everything from that shiny new VW Beetle to your rent and your retirement. And like most things that are addictive, it just isn't good for your long-term financial outlook.

Sitting in front of a computer screen all day, developing eyestrain, acid indigestion and strategies for fending off panic does not seem to us to be the way to live. Rather, we'd like you to educate yourself about great companies, invest in them for the long term, and then move on to the more important things in life, like finding your One True Love, spending time with family, fulfilling yourself in a stimulating career, contributing to society, and, of

course, perfecting your backhand.

The costs can kill you. Even if you're using a discount broker, commissions can easily add up to thousands or tens of

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thousands of dollars when you make so many trades. Then, too, there are added costs: quote services (so you can find out instantly the price of a given stock), margin interest (the interest you pay on money that you may need to borrow in order to trade), and higher taxes on short-term profits.

If you guess wrong, you've lost the power of compound returns over time, which is the way that Fools think you will get rich. Instead of falling victim to the allure of day trading, we urge you to get rich slowly. Slow and steady wins the race. And if you choose good companies, it may happen faster than you think. •

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