

The Difficulties of Day Trading - Transcript

Tim Mullooly: Welcome to the Mullooly Asset show. I'm your host for today, Tim Mullooly. This is episode number 208. Thank you for tuning in.

Today, we're going to talk about day trading. There has been a significant uptick in day trading activity from retail investors here in 2020. I'm sure by now you have at least heard of the platform Robinhood. There was three million accounts created on Robinhood just in the first quarter of 2020 alone. So when the pandemic hit, things got shut down, sports seasons got canceled, people weren't going to work, a lot of people that would have been betting on football, baseball, basketball, all these different sports didn't have anything to bet on so they turned their attention to the stock market. I know I want to talk about the difficulties involved with day trading today, but before I do that I did want to say that it is possible for people to have some modicum of success when it comes to day trading. Usually, it's over the short term though. I will say, however, that rarely, very rarely does anyone ever day trade their way to a successful retirement nest egg.

Here at Mullooly Asset Management, we are managing our client's money and investing for the long-term. We're investing for that long-term retirement nest egg. That's why we don't day trade our investments here. We've said it before on different podcasts and videos that trading and investing are two completely different things.

So there was a blog post on the White Coat Investor, and they outlined a couple of different reasons of why you shouldn't day trade your accounts. The first reason that they gave is the simplest reason, and that's that you just don't need to, to be successful with your finances. You don't need to day trade. There are a lot of other things in your financial life that matter more than the success of day trading stocks, like having your cashflow in order, having a high savings rate and a low spending rate, having a broadly diversified portfolio that will work for you over the long-term that you can stick with during any market environment and that can compound and you can get the benefits of compound interest. The list goes on. There are a bunch of other things that are much more important to your financial success than day trading. You don't need to day trade to be financially secure.

The thing about day traders is that a lot of them are pretty bad at tracking their actual returns. Surely you're going to hear all about the big winner that they had in Robinhood, they bought in real low, it skyrocketed the next day, and then they sold it. But what you're not going to hear about is for every winner that they have, they're probably not telling you about five, six, seven, 10 losers that they had, that they lost money on between taxes, fees, not to mention the emotional costs of day trading. It can be pretty stressful. The cost of day trading all in can really add up for you. You might feel like everyone else out there is getting rich on Robinhood and you're missing out, but I can promise you that that is not at all the majority of people that are day trading.

Like I just said, day trading can be a really time consuming activity and most people just don't have the time in their day to set aside the necessary amount of research to be done on companies. I hate to break it to you, but that article that you read on MarketWatch or CNBC, that hot stock tip for the day, millions of other people all around the world are reading that same article as you

at the exact same time. In today's technology day and age, having any sort of informational advantage on a company or some sort of investment, it's pretty obsolete at this point. Even the professionals out there that trade on a professional basis, they spend all day and all night, it's their livelihood researching these different investments and different trades, and even they have trouble beating the broad market on a year to year basis.

So as I said earlier, those who normally would be betting on sports have turned to stocks, and that has lent itself to... Day trading gives off that sort of gambler's mentality. Using terms like I'm doubling down, or I got a place this trade to get back to even, those are things that you never want to say when it comes to your investments. Things can unravel pretty quickly for people when they get into messy day trades and they need to make their money back to get back to even. Similar to the gambler's mentality, a few lucky successful trades can inflate your sense of skill, you might think that you're better at this than you thought, and that could lead you to take unnecessary risks or put a reckless amount of your investible assets at risk. Just things that you shouldn't do and you don't need to do at all to be financially secure.

At the end of the day, all of the risks to everything I just said, it greatly outweighs any potential upside that you might have in day trading stocks. And to allocate any significant portion of your investible assets to day trading to more than just a on-the-side fun account is borderline reckless and could cost you in the long run.

If you want to try and figure out how much might be a more responsible amount and not a big, significant portion of your investible assets, a financial planner would be the person to talk to about that. We would be happy to talk to you if you wanted to have that conversation as well.

So to wrap up, unfortunately, the message for today is that successful investing, building wealth over the long-term, shouldn't be loads of high flying, high octane fun. Most of the ways to build real wealth for retirement can end up being pretty boring. That's the message for episode 208. Thanks for tuning in. We'll catch you next week.