



Stock Day Trading Is Back! Is It Right for you?

Description

With the markets in turmoil and people confined to their homes, there's been a surge in stock day trading. Investors across the country are betting on or against stock prices that are fluctuating by double digits every other day. If you've never invested in stocks before, here's what you need to know about day trading and its alternatives.

Day trading 101

Put simply, day trading is a strategy for investors to bet on a stock price going up or down within a single day. The stock market is open from 9:30 am to 4:00 pm eastern time, and most stocks barely move throughout that window. However, on some occasions, prices can move substantially.

For example, **Shopify** stock surged 8.2% on May 6. Investors who bet on the stock in the morning potentially made hundreds of dollars. Investors who bought call options could have made thousands — not bad for a day's work.

Day traders lose money on some days. However, the strategy is expected to deliver riches over time as long as a trader can have more up days than down ones.

Pitfalls of day trading

Day trading hinges on probability. As long as you can have more up days than down over time, you'll make money. However, you simply *don't know your chances of making money when you start*.

Let me put it another way. We now know that Shopify stock surged 8.2% on May 6. However, I can't predict what the stock will do on May 21 or July 2 or December 10. I can make a *bet based on a guess*, but that's just speculation.

Research suggests that 80% of day trading investors give up on the strategy within the first two years. That's a clear indication that making money by trading daily is difficult if not impossible.

Better alternatives

Veteran investors believe that if there's an easier way to make money, you should probably adopt it. For instance, the long-term trend of an industry or the economy is easier to predict than the daily moves.

It's easier for me to say Shopify's [potential market is worth \\$9 trillion](#) and the company could be worth much more in a few years. It's also easier for me to see that people will still be paying their electric bills in 2022, so stocks like **Fortis** should be able to sustain their dividends.

I can't tell you precisely how much Canadians will spend on healthcare and groceries in the future, but it seems likely it will be more not less in ten years.

Making these calls is easier. It's more intuitive. And it's probably why investors can make bigger bets with more conviction. Buying and holding Shopify or Fortis for years, if not decades, should be unimaginably easier than day trading — and it's also likely to be a lot more lucrative.

From Warren Buffett to Gerald W. Schwartz, the buy-and-hold strategy has worked for countless billionaires for decades. There's no reason why it can't work for regular investors like us.

Foolish takeaway

Day trading may be popular, but buy-and-hold is easier and likely to be more lucrative. Why not pick the easier path to riches?

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