

By Leah Nathans Spiro

DAY TRADING IS A SUCKER'S GAME

No one knows why Mark Barton, the Atlanta day trader who racked up significant losses, went on a murder spree, killing his wife, two children, and himself and nine people at the offices of two day-trading firms where he had been a customer. But the tragedy will accelerate efforts by regulators to crack down on the day-trading industry. And it may help some day traders grasp what a losing proposition day trading is.

Too many day traders don't realize that they have about as much chance of making money day trading as winning on the horses. Some "75% to 95%" of day traders lose money, says Indiana Securities Commissioner Bradley Skolnick.

Why is day trading such a crap-

Some day-trading firms require their customers to trade frequently. Skiersch says that he observed personnel at two day-trading firms physically take the terminals away from customers who didn't do enough trading. In his experience, when customers ran out of money, they were encouraged to borrow—not only from the firm but from friends, family, and their credit-card balances. When day traders were cleaned out, they were unceremoniously ejected, and new customers quickly took their place. "I realized there is no way to win. Just like there's no way to beat Caesar's Palace," says Skiersch.

Of course, not all day-trading firms are alike. Some, such as All-Tech Invest-

they are wealthy enough to absorb substantial losses. That rule already applies to all full-service brokers. State regulators believe that "suitability rules do apply because day trading is a strategy for a program of investing," which is just the same as recommending a specific stock, according to one state regulator.

Regulators are also expected to crack down in the area of deceptive

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NO DATA: Some day-trading sites don't disclose customer success rates

marketing. Massachusetts, for example, just took action against one firm for saying on its Web site that 85% of customers were successful and another firm for promoting a day-trading course that said its system provides a "6-to-7-figure income per year." Another bone of contention is the practice at some day-trading firms of encouraging their clients to trade for others, which regulators say is operating as an unregistered investment adviser. "I anticipate, in the year ahead, many more actions by state and other regulators concerning the problems in the day-trading industry," says David Shellenberger, chief of licensing for the Massachusetts Securities Div.

So far, marketing, technology, and the soaring stock market have outpaced regulators. And day traders have allowed themselves to be dazzled and deceived as well. But tougher regulations and a growing realization that day trading is a sucker's game may finally dampen the euphoria surrounding it.

Spiro writes about Wall Street.

shoot? After all, it's based on the principle that the markets are not 100% efficient, so there is an opportunity to make small profits from each trade. Day traders buy a stock, see it go up by as little as a sixteenth of a point, and sell the stock for a modest profit before the end of the day. By repeating this transaction often enough, these modest gains will add up to meaningful numbers, according to the day-trading firms.

WIPE-OUT. The rub is, the profits from day trading are usually wiped out by the commissions needed to make those trades. Former Chicago day trader John Skiersch paid 2.5¢ to 3.5¢ per share, or \$25 to \$35 to buy 1,000 shares. To buy and sell 1,000 shares costs \$50 to \$70. On a good day, Skiersch would gross about \$3,200 on 70 trades. But commissions of \$3,500 ate up the gross—and then some.

ment Group and Momentum Securities, offer training courses and offices for trading, while others, such as MB Trading, just offer day-trading software and execute customer trades.

Led by the states, new regulations and more enforcement actions against day traders are on the way. The North American State Securities Administrators (NASSA) has called for new rules, now before the Securities & Exchange Commission, which would close the regulatory loopholes that have allowed day-trading firms to thrive. Since they don't recommend specific stocks, these firms have been able to ignore the suitability requirement. One proposed rule would make day-trading firms screen their customers sufficiently to make sure that